AVIATION EXCISE TAXES AND THE AIRPORT AND AIRWAY TRUST FUND

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

H.R. 2643 and H.R. 2930

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AVIATION EXCISE TAXES AND THE AIRPORT AND AIRWAY TRUST FUND

WEDNESDAY, OCTOBER 14, 1981

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 9:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[Press release announcing hearing follows:]

[Press Release, Monday, Sept. 28, 1981]

Hon. Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, Announces a 1-Day Public Hearing on Wednesday, October 14, 1981, on Legislative Proposals Relating to Aviation Excise Taxes and the Airport and Airway Trust Fund

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, today announced a 1-day public hearing on legislative proposals relating to aviation excise taxes and the Airport and Airway Trust Fund. The hearing will be held on Wednesday, October 14, 1981, beginning at 9:30 a.m., in Room 1100 Longworth House Office Building, the Main Committee Hearing Room.

Representatives of the Administration are expected to be the lead-off witnesses to be followed by testimony from Members of Congress and interested members of the general public who have requested to be heard.

Chairman Rostenkowski observed, in announcing this hearing, that the House Public Works Committee has reported H.R. 2643, the Airport and Airway Improvement Act of 1981, which establishes funding levels for airport and airway programs through fiscal year 1983 and that the Senate Finance Committee held hearings on two Senate measures containing provisions on the Airport and Airway Trust Fund and excise taxes earlier this year. Finally, the Administration's budget submissions have included in their receipts estimates, the increased revenues that would result from the enactment of their proposals on these taxes effective October 1, 1981.

BACKGROUND INFORMATION

On September 30, 1980, many of the aviation excise taxes expired or were reduced and the deposit of aviation tax revenues into the Airport and Airway Trust Fund was terminated. Although the Committee on Ways and Means had reported legislation in the second session of the 96th Congress to extend the Trust Fund and its taxes (Title II of H.R. 6721, the Airport and Airway Revenue Act of 1980), final House action was not taken prior to adjournment of the 96th Congress.

As a result, the passenger ticket tax was automatically reduced from 8 percent to its present rate of 5 percent, the fuel tax on gasoline was reduced from 7 cents to 4 cents per gallon, and a number of taxes expired, including the 7-cents-per-gallon fuel tax on jet fuel, the $3-per-person international departure tax, the 5-percent air freight waybill tax, and the aircraft use taxes. The revenues that are being collected are deposited in the general fund. In addition, the revenues from the aircraft tires and tubes taxes, imposed at the general rates for non-highway use, have remained in the Highway Trust Fund instead of being transferred to the Airport and Airway Trust Fund.

Earlier this year, the Administration submitted its proposals in regard to aviation excise taxes and Trust Fund provisions. In their current form, these proposals would increase the ticket tax to 6.5 percent and the fuel taxes would be increased over a period of years as follows: the 4-cents-per-gallon tax on gasoline would be increased to 12 cents in fiscal year 1982, phasing up to 36 cents after fiscal year 1985; the jet fuel tax would be imposed at 20 cents per gallon in fiscal year 1982, phasing up to 65 cents after fiscal year 1985. The air freight waybill tax and the international departure tax would be restored at prior tax levels. The aircraft use taxes would not be reinstated. In addition, the Trust Fund language would be amended to generally permit expenditures for operation, safety and regulatory activities by the Federal Aviation Administration. There would not be any expiration dates for aviation taxes or transfers to the Trust Fund.

The major issues of concern to the Committee which should be addressed at the hearing include the appropriate mix and level of aviation taxes and revenue collections, given the present Trust Fund balance and the projected spending levels for aviation programs; the relative tax burdens to be placed on various aspects of the industry; the extension period for the Trust Fund and its taxes; and, Trust Fund provisions relating to approved expenditures.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony at the hearing should submit their requests to be heard by telephone to be followed by a formal written request to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515; telephone (202) 225-3627. The initial telephone request must be received by the Committee no later than the close of business, Thursday, October 8, 1981. Notification to those scheduled to appear will be made by telephone as soon as possible after the filing deadline.

Requests to be heard must contain the following information:

(1) The name, address, title, firm affiliation and/or organization the witness will represent (as well as a telephone number where he or his designated representative may be reached);

(2) If appearing in an individual capacity, a list of any clients at whose request or in whose employ the witness appears; and

(3) A topical outline of summary of comments and recommendations.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the written record of the hearing.

PROCEDURE TO BE FOLLOWED FOR SUBMITTING TESTIMONY

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Committee are required to submit 125 copies of their prepared statement to the full Committee Office, Room 1102 Longworth House Office Building, at least 24 hours in advance of the hearing. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

For those who wish to file a written statement for the printed record of the hearing in lieu of a personal appearance, five copies are required and must be submitted to the Committee office by the close of business Wednesday, October 14, 1981. An additional supply of statements may be furnished for distribution to the press and public if supplied to the Committee office before the hearing begins.

Chairman **Rostenkowski**. The committee will come to order. Good morning, ladies and gentlemen.

At the outset, I would like to welcome Congressman Beryl Anthony, a new member of the Committee on Ways and Means. He has made the big move from the Budget Committee to the Ways and Means Committee. That is like moving from the frying pan into the fire.

I also would like to take this opportunity to have Mr. Anthony feel comfortable, and certainly we are available to do all that we can to help him learn the procedures of the Ways and Means Committee.

Beryl, we are happy to have you here. We look forward to your assistance in writing good tax policy and economic policy for the country.

Mr. Pickle. I am glad to have Congressman Anthony here. He comes from a good part of the country which generally has good football teams, the kind we ought to have. I will take credit for the other 25 percent of the votes.

Chairman Rostenkowski. I would like to also point out this is the first time that my family has seen me in the Chair. [Applause.]

With that, the committee will begin its consideration of proposals concerning aviation excise taxes and the airport and airway trust fund.

The House Public Works Committee has reported H.R. 2643, the Airport and Airway Improvement Act of 1981, which establishes funding levels for these programs for fiscal years 1982 and 1983. Congressman Mineta, chairman of that committee's Subcommittee on Aviation, is here this morning to describe the reported bill and to provide us with that subcommittee's views on the current and projected financial needs of the system and the appropriate balance of revenue collections among system users.

In addition, we have before us the administration's proposals for the trust fund and related taxes, introduced as title II of H.R. 2930. These proposals will be explained by David G. Glickman, Deputy Assistant Secretary for Tax Policy of the Treasury Department; Darrell M. Trent, Deputy Secretary of the Department of Transportation; accompanied by J. Lynn Helms, Administrator of the Federal Aviation Administration, FAA.

The issues before us today are complex and controversial, yet legislative action on these matters is overdue. Many of the aviation taxes expired or were automatically reduced last October because final action was not completed, before the expiration of the 96th Congress, on title II of H.R. 6721, which would have extended these taxes and the trust fund through September 30, 1985.

In addition, I want to point out that the additional revenue collections that would occur under the administration's aviation excise tax proposals are already assumed in the fiscal year 1982 budget; therefore, it is incumbent upon this committee to consider these matters expeditiously.

With that introduction, we will begin with Congressman Mineta.

Mr. Mineta, welcome to the Ways and Means Committee. We are ready for your testimony and explanation of the bill as reported by the Public Works Committee and your recommendations to this committee with respect to a financing title to accompany your committee's spending programs.

STATEMENT OF HON. NORMAN Y. MINETA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA AND CHAIRMAN, AVIATION SUBCOMMITTEE OF THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Mr. Mineta. Thank you very much, Mr. Chairman.

I really appreciate this opportunity to testify before your committee, and with your permission, Mr. Chairman, I will submit my complete statement for the record and only present portions of it at this time.

As chairman of the Aviation Subcommittee, I am acutely aware that many of our aviation programs depend on the coordinated action of several House committees. Effective management of the aviation trust funds in particular requires the combined efforts of the Public Works and Transportaton Committee, the Science and Technology Committee, the Appropriations Committee, the Budget Committee and the Ways and Means Committee. It is important that we all work cooperatively toward a coordinated approach and my appearance here today is in that spirit.

I would like to first briefly describe the airport and airway program as reported by our committee, including a recent committee amendment.

We have retained the basic concept of the 1970 act, under which the Federal Government uses its taxing authority to provide an efficient and reliable relationship between the users and the providers of airport and airway services. Under this approach the Federal Government has and would continue to tax the users of the system, to hold those revenues separate in a dedicated trust fund, and to then use those funds to meet the airport and airway needs of the users.

It is a system which is far preferable to the alternative which has been proposed, which is to have all users continue to pay Federal taxes but to only allow some airports to receive grants in return, and to allow other airports to add a variety of local user taxes on top of the Federal user taxes.

The only failure of the 1970 act has been that revenues and expenditures have not kept to parallel courses and as a result at the end of fiscal year 1980 the trust fund had a surplus of $3.8 billion, which was roughly one-third of all dollars collected during the decade. The task of resolving this problem by determining what costs should be funded from the trust fund, at what levels, and what tax levels are needed to gradually return the trust fund to an even keel is the central responsibility facing our two committees.

Our bill continues the basic capital programs of the 1970 act at the following levels.

[A table follows:]

[In millions of dollars]

	1982	1983
ADAP (grants to airports)	600	600
F. & E. (airway equipment procurement)	325	425
R.E. & D. (R. & D. related to airway equipment)	85	

Mr. **Mineta**. These funding levels are consistent with the first budget resolution or the Reconciliation Act, as appropriate.

The subcategories of ADAP funding in the bill are described in table 1 which accompanies my testimony.

The bill also sets limits on the use of trust funds for support of the operations and maintenance, O. & M., of the airway system. In past years this has been set at an absolute dollar limit; for example, in fiscal year 1981 the trust fund contribution was set at $525 million. Beginning in fiscal year 1982 we have adopted a percentage approach and provide that 50 percent of airway O. & M. would come from the trust fund.

We estimate that for fiscal year 1982 that would be about $900 million, subject to a final determination through the appropriations process of what total O. & M. funding would be available to the agency.

Two major controversies regarding this bill have changed since you considered these programs last year:

First, the ground access provisions extending the ADAP program, and therefore the use of the trust fund, to ground transportation projects outside the airport boundary have been completely removed from the bill.

And, second, while our proposed O. & M. contributions from the trust fund have remained roughly the same, the alternatives to our bill have changed. Last year we were the advocates of shifting a greater portion of the O. & M. burden to the trust fund. We still propose about the same level, but this year the Reagan budget advocated a $1.95 billion trust fund contribution, more than double our level. So ours is now the more moderate position.

The first step in determining what the future revenue needs of the trust fund will be, and in dealing with the issue of cost recovery, is to determine precisely which purposes are to be funded by the general taxpayer. Our bill makes that determination.

First, 100 percent of the Federal contributions to capital costs—for airport development and airway equipment purchasing and R. & D.—would be paid by the users. In this area we have no disagreement with the administration. Under our bill these capital costs would total just over $1 billion in fiscal year 1982.

Second, 50 percent of the costs of operating and maintaining the airway system would be paid by the users. Using the administration's March budget figures, this would be 50 percent of about $1.8 billion, or $900 million. This would be a substantial increase from past practice which as recently as fiscal year 1980 held trust fund contributions at only about 18 percent of airway O. & M. cost. Nevertheless, it is far below the administration proposal of 85 percent.

The administration arrived at that figure by assuming that that portion of the use of the airway system which can be attributed to military and Government aircraft and to federally operated Washington airports fully represents the public interest in the safe and efficient operation of the airway system.

This approach, first described in the administration's March submission of its airport and airway legislation, either fails to understand or seriously misrepresents the FAA's own most recent cost allocation study, known as the "Financing the airport and airway system: Cost allocation and recovery, FAA, 1978."

That study has been challenged by some user groups but let us accept it for a moment, just to show the disparity between the FAA's study and what the administration is now proposing.

The study does not find that simple use of the system by Government aircraft is an adequate measure of the public interest in the system. Instead, it assigns a number of functions—regulatory and general Government expenses, costs associated with federally operated Washington airports, certification costs, nonaviation weather expenses, those airway system costs which exist only because of military requirements, and costs associated with small community service which exists only because of Federal policy and mandate—

the public sector. Only then does it begin to count actual use of the system by public or private aircraft.

The study also uses two methods of allocation to establish, in its words, "a range":

By one method it attributes 74 percent of all FAA costs to private-sector users, 10 percent to Government and military aircraft, and 16 percent general public-interest costs. By the other method, it attributes 63 percent to private-sector users, 10 percent to Government and military aircraft, and 27 percent to general public-interest costs.

So, the FAA study sets a range for full cost recovery of somewhere between 63 and 74 percent, and these are based on total FAA costs, both capital and operating.

The administration tax proposal before you now is based on applying its 85-percent figure to the operating budget and 100 percent to the capital budget, thereby achieving a cost recovery approaching 90 percent rather than the 63- to 74-percent range in the FAA study.

Our proposal, by applying 100 percent to the capital budget, 50 percent to actual airway operations and maintenance, and zero percent to the nonairway operating budget, would achieve a total cost recovery of roughly 56 percent. Our bill is, in fact, closer to the FAA study's range than is the administration's proposal.

We should also note that many of the regulatory and certification expenses, which are considered as part of the public interest, share in all these figures and are not funded from the trust fund, are still paid for by the users through a variety of licensing and use fees which go into the general fund. So, percentage of trust fund support figures will in all cases slightly understate what the user is actually supporting.

I would be the first to admit that our 50 percent of airway O. & M. is a somewhat arbitrary number, but for all the studies that are cited on this issue, the fact is that any number is at least somewhat arbitrary. Our approach is a reasonable split and greatly diminishes the burden on the general taxpayer from what it has been in recent years.

These differences in noncapital spending from the trust fund between our bill and the administration proposal are very important for calculating future revenue needs. Their tax proposals in fact assume operational funding at a level roughly $1 billion a year higher than ours.

The second step in determining the future revenue needs of the trust fund is to determine the future spending levels of the trust fund programs. In this area we have to frankly admit that we have presented you with a bill far less definitive than we would have liked. Our bill originally extended through fiscal year 1985 and provided funding levels which at least approached system needs.

However, the administration proposed and the budget process generally followed funding levels far below system needs. In hearings, our committee questioned the administration and came to the conclusion that the administration's proposals were not based on any assessment of what the needs were and that their proposals in fact contradicted the most recent FAA assessment of system needs, which was completed in December 1980, entitled "National Aviation System Development and Capital Needs—for the Decade 1982-1991," DOT/FAA, December 1980.

Faced with that situation, our Members on both sides of the aisle concluded that we should extend our bill only through fiscal year 1983 to give this administration time to study the system and to base its future requests on greater knowledge of system needs.

Under the circumstances, I believe that was a wise course, but it does present you with the problem of greater uncertainty in the levels of future spending.

In our committee report we urge you "to adopt tax levels which will produce a balance between Trust Fund revenues and expenditures, and which will gradually draw down the existing Trust Fund surplus." But we also point out that the funding levels in our bill "do not meet the needs of the system and that it will be necessary to set higher funding levels for future years."

It is therefore as difficult for me as it is for you to predict outyear revenue needs for the trust fund. But I think a very rough approximation can be made, if we are careful to understand all the limitations inherent in that approximation. Table 2 attached to my testimony provides that very rough approximation.

The expenditure levels are based on the following assumptions:

For ADAP we have used the levels in our bill as amended for fiscal years 1982 and 1983; for fiscal years 1984 and 1985 we used the levels in the bill as introduced; and beyond fiscal year 1985 we estimated an annual growth of 10 percent. These levels are actually below those forecast in the FAA's capital needs study.

For F. & E. we have used our bill as amended for fiscal years 1982 and 1983; for fiscal years 1984 and 1985 we used the levels in the bill as introduced; and beyond fiscal year 1985 we used the FAA capital needs study figures.

I want to draw particular attention to the fact that F. & E. expenditures must be increased dramatically in fiscal year 1986 when FAA is projected to begin replacement of its enroute computer system. This will be the largest computer buy in history and because of it the capital needs study puts F. & E. needs for the next decade at $8.5 billion.

Administrator Helms has been conducting a reevaluation of these needs and the final results of that reevaluation are not expected until next month. But all indications I have suggest that his effort has basically reconfirmed the earlier estimate. It appears that these costs will be unavoidable if we are, in the words of the capital needs study, "to prevent a significant deterioration of system performance."

And this becomes even more important given the increased reliance the Administrator will place on the F. & E. program in rebuilding the system in the wake of the strike.

For R.E. & D. we have used our bill for fiscal year 1982 and the capital needs study figures beyond fiscal year 1982. I would just point out that the same enroute computer bulge which will hit F. & E. in fiscal year 1986 will hit the R. & D. account in fiscal year 1983, as this program does the initial work leading to the computer procurement.

For operations, we have used 50 percent of airway costs as estimated by FAA.

Regarding the tax levels assumed, my purpose here is not to recommend specific tax levels to you but to try to predict revenue requirements. Nevertheless, just one of the user taxes, the passenger ticket tax, has in recent years produced about 84 percent of all tax revenues to the trust fund, as shown on table 3. So it is impossible to talk about revenue requirements without talking about ticket taxes.

The basic revenue levels in this chart are therefore dependent on a 5-percent ticket tax.

Other taxes are set rather arbitrarily and in fact variations in these taxes have very little impact on total revenues or on future trust fund balances.

As you can see in the bottom line of the chart, these tax and expenditure levels are adequate to gradually draw down the surplus in the trust fund, but to keep a positive balance until at least fiscal year 1988, which I expect would be beyond the duration of any revenue title you might report out of this committee.

However, I doubt that the surplus would ever entirely disappear, even at these tax levels, for several reasons: First, the spending levels assumed in this chart presuppose that spending would actually keep pace with needs and, unfortunately, that has seldom been the case in this program; and, second, FAA forecasts on which this projection is based have traditionally underestimated future revenues, either by underestimating fare increases, or traffic increases, or both.

The likelihood is that this would be the case once again, and there is the additional uncertainty that FAA has not made its revised traffic fòrecasts at this time as expected, and we are still employing prestrike traffic forecasts in this chart.

How much effect the strike will have, and for how long, is simply unknown at this time; 1982 and possibly 1983 revenues might be reduced slightly, but beyond that a return to forecast levels is likely.

What all this means is that these important capital programs can be continued and increased; substantial but reasonable increases can be made in trust fund contributions to operational costs; and the trust fund can be kept positive for the foreseeable future, while the surplus is reduced, all with a tax burden significantly lighter than that proposed by the administration. It appears that a tax structure built around a 5-percent ticket tax will accomplish all these goals.

With regard to other taxes, it is mainly a matter of establishing an equitable balance among the various users of the system. Our committee has not deliberated on these issues and has no specific recommendations for you; however, I would offer two general observations:

First, of the various user taxes, only two are ad valorem taxes: the passenger ticket tax and the freight waybill tax. All other user taxes are expressed in absolute dollars. As a result, as fares and freight tariffs have increased over the past decade, the burden carried by the ticket tax and the waybill tax have increased at a much greater rate than for other taxes. Therefore, if some taxes can be reduced from their traditional levels, it should be these two taxes.

And, second, the administration's proposal for general aviation taxes, with avgas rising from 4 cents per gallon to 35 cents per gallon, and jet fuel to 65 cents per gallon, is clearly not justified. As I have pointed out, the revenues produced by the administration proposal are generally in excess of what is needed to support our bill and they would only continue to add to the trust fund surplus.

So, these levels for general aviation are not required to meet revenue needs. Furthermore, our bill is based on lower contributions by all users to FAA operations than assumed by the administration, and if other users are paying less because of that, then equity obviously would not be served by having general aviation pay at the full administration rate.

And finally, from the consideration of ability to pay, the 36-cent and 65-cent levels are clearly beyond what the general aviation industry can sustain. Like several other industries, such as housing and automobiles, general aviation is particularly vulnerable to high-interest rates, and the experience of last year has left this industry in a significantly weakened position. This is no time to impose the administration's tax levels.

Therefore, whether considered in terms of revenue needs, or equity among users, or ability to pay, the full tax increases proposed by the administration for general aviation are insupportable, particularly in conjunction with our bill.

Mr. Chairman, it is important that we bring this legislation, with your revenue title, to the floor of the House as soon as possible. For the past year aviation user taxes have gone not to the aviation trust fund but to the general fund or to the highway trust fund. With aviation programs continuing to be funded from the trust fund while aviation user taxes go into the general fund, the trust fund has dropped from $3.8 billion at the beginning of fiscal year 1981 to $2.9 billion at the end of that year.

Only with enactment of a bill can we once again reserve aviation user taxes for aviation programs, as originally promised by the Congress when the trust fund was established.

Our committee therefore looks forward to working with you to keep this legislation moving and we want to commend you on the leadership you have provided in scheduling these hearings.

I would be pleased to respond to any questions the committee may have.

[Tables 1, 2, and 3 follow:]

TABLE 1.—H.R. 2643 AS AMENDED, ADAP FUNDING LEVELS

[In millions]

	Per year	Fiscal year 1982 and 1983 combined
Apportionments:		
Primary airports, enplanement formula	270	
States, general aviation and nonprimary	69	
Total	339	
Discretionary	261	
Total	600	

TABLE 1.—H.R. 2643 AS AMENDED, ADAP FUNDING LEVELS—Continued

[In millions]

	Per year	Fiscal year 1982 and 1983 combined
Set-asides (counting both apportionments and discretionary):		
Smaller airports formerly receiving enplanement funds		54
Reliever airports		67
System planning		10
Noise compatibility programs		90
Total		221

TABLE 2.—BUDGET FORMULATION

[In current dollars, millions]

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Beginning uncommitted balance	3,803.0	2,877.9	2,953.9	3,005.7	2,696.7	2,320.3	1,450.8	709.9	−16.9	−709.2
Revenue from taxes	0	1,503.7	1,737.9	1,964.4	2,180.0	2,421.7	2,683.9	2,957.5	3,263.9	3,597.3
Trust fund:										
Airport program	450.0	600.0	600.0	957.0	1,053.0	1,158.0	1,274.0	140.0	1,541.0	1,695.0
Facilities and equipment	350.0	325.0	425.0	550.0	605.0	1,194.0	1,032.0	1,032.0	1,032.0	1,032.0
Research and development	85.0	85.0	205.0	254.0	285.0	227.0	258.0	285.0	316.0	321.0
Operations	525.0	907.0	946.0	987.0	1,034.0	1,083.0	1,134.0	1,187.0	1,243.0	1301.0
Total authorization	1,410.0	1,917.0	2,176.0	2,748.0	2,977.0	3,662.0	3,698.0	3,905.0	4,132.0	4,349.0
Subtotal	2,393.0	2,464.6	2,515.7	2,222.1	1,899.7	1,080.0	436.7	−237.6	−885.0	−1,460.9
Interest	484.9	489.2	490.0	474.6	420.6	370.8	273.2	220.7	175.8	139.6
End uncommitted balance	2,877.9	2,953.9	3,005.7	2,696.7	2,320.3	1,450.8	709.9	−16.9	−709.2	−1321.3

Tax assumptions

Domestic ticket tax (percent)	5
Freight way bill (percent)	3
International departure tax	$3
Fuel taxes (cents per gallon)	12
Tube and tire tax (per pound)	5 and 10
Use tax (registration and weight)	0

TABLE 3.—AIRPORT AND AIRWAY TRUST FUND REVENUES, FISCAL YEAR 1979

[Amounts in millions]

	Amounts	Percentage of total
Domestic ticket tax [1]	1,284.2	84
Freight way bill [1]	81.3	5
International departure tax [1]	71.7	5
Fuel taxes [2]	64.1	4
Tube and tire tax [3]	1.01	
Use tax (registration and weight) [3]	25.07	2
Total	1,528.1	

[1] Air carriers only, 94 percent.

[2] General aviation only, 4 percent.

[3] Both, 2 percent.

Chairman **Rostenkowski**. Thank you, Mr. Mineta, for joining us this morning. You presented a very-well-thought-out statement.

Mr. Gibbons will inquire.

Mr. **Gibbons**. I think it is a well-thought-out statement, too. I appreciate the thought and care you have given to it.

A few years ago our Oversight Subcommittee looked at the trust fund and we were disturbed about its excessive buildup and the fact it did not appear to us that the FAA was making enough long-range plans to handle the traffic that would be in our airway system in the future.

Has your committee been looking at that issue?

Mr. **Mineta**. We are trying to balance the capacity of the total airway system with each of the individual airports within the national aviation system plan. I think to the extent that the Congress has appropriated sufficient funds, that the FAA has to be required to utilize all the F. & E. funds that have been authorized and appropriated.

To that extent, as we look at what the total system needs are, we have to make sure these needs are reflected in the FAA's requests and that those funds, once authorized and appropriated, are in fact utilized.

Under this bill, we would require for the first time a facilities and equipment plan. It is hoped that through the facilities and equipment plan that we will be in a position to have the FAA put together a 10-year program for facilities and equipment.

Mr. **Gibbons**. I personally favor a user fee concept for this particular type of more isolated use than the general public use. While I normally have some worries about trust funds and how they are set up and operated, and the side effects they have, I don't have that fear in this particular instance, because aviation being so unique as it is, and so easy to isolate from other governmental functions, although as you point out, it cannot be completely isolated, but I have always been disturbed that the trust fund does not work at this.

The administration never asks for all the money that the trust fund provides. The Appropriations Committee never provides all the money that the trust fund provides, and it appears to me that what we have here is something that is called a trust fund that doesn't work like a trust fund.

Do you have some observations on that?

Mr. **Mineta**. I am not sure that the trust fund has not been working; it is just that I think we have had an underestimate in terms of our needs and an underestimate in terms of what revenues will be coming into the trust fund. No one is able to predict. The fare I used to pay 2 or 3 years ago from Washington, D.C., to my district in San Jose was a roundtrip air fare of $412. Today that coach fare is around $850. When you are still applying that same percentage on the ticket tax, with the increased fare, naturally that is an increased revenue to the fund. So, it is just one where the projections and estimates that were made have not been accurate.

I think in this instance we have a program where, if we would use it for what was contemplated in the act, instead of, frankly, trying to balance the budget in the sense of having a large surplus, that makes it look good to offset the balance in the budget, I think we can be in a position to use the money effectively as we see it in the future.

Especially on our computer buy, we are going to need that money.

What I am saying here is that we have to realistically set those taxes on passenger tickets and freight waybills, et cetera, to balance the outgo and income.

Mr. GIBBONS. We hear words about defederalization of some of the airports in the United States. I am not familiar with the Senate bill, but it is something that we must look at as we prepare to pass this bill and go to conference.

What do you think is going to happen on this issue of defederalization?

Mr. MINETA. Mr. Gibbons, that is an issue that I have taken a very strong stand in opposition to. It seems to me that what we have is a national system of collecting taxes against the users of the system. Now, by having the defederalization approach, what you are saying is that some airports will not be eligible for ADAP-type grants, yet at the same time those people who are using those facilities are still going to be paying their passenger ticket tax. In the absence of those airports getting any moneys from the airport trust fund, they will have to impose a head tax.

Once you impose a head tax, then you have a tremendous collection system that is going to have to be somehow set up so that the passenger or the travel agent in Sioux City, Iowa, who is booking your passage from point A to B to C to D is going to have to see what airports do have a head tax, how does that tax amount get to that airport, all those kinds of mechanical problems of distributing that tax. Whereas, today we have a uniform tax that applies across the country; the airports are eligible for the ADAP grants and I just don't feel that defederalization is the way to go.

Mr. GIBBONS. Is your subcommittee generally convinced of that approach?

Mr. MINETA. I believe it is, on both sides of the aisle.

Mr. GIBBONS. Thank you.

Chairman ROSTENKOWSKI. Mr. Pickle will inquire.

Mr. PICKLE. I thank you for recognizing me. I had to leave the committee room and did not get to hear all your testimony, Mr. Mineta, but let me ask a general question:

I understood from your statement that you would raise the fuel tax on aviation gasoline to as much as 12 cents per gallon. It was at one time 7 cents per gallon. Whether it is 7 cents or 12 cents per gallon we assume it will be in that neighborhood. Would you be able to actually spend for maintenance or operation the money that you actually raise through increases in these taxes?

The problem we have had in the past is that no matter what the FAA or the Hill would recommend, the OMB would not allow that expenditure to come about. Is your committee recommending that some actually be spent and should be spent?

Mr. MINETA. First of all, in the testimony I have not really recommended any level of taxation specifically, because I think that is within your realm of jurisdiction as far as determining those taxes.

Our concern is really more that the taxes be in line with the expenditures that will be needed to deal with the operations and maintenance costs, the R. & D., the F. & E., and the ADAP grant programs. And considering those funds that are necessary, we feel that the administration's tax proposals are too high.

Mr. PICKLE. You have made certain assumptions that based on the needs you assume the tax will be raised to, as I understand it, around 12 cents per gallon.

My question to you though is that if this Congress goes to that level or whatever level, will you insist that those funds be available to be spent?

Mr. MINETA. Very definitely, because that has always been our position, despite the fact that the full level of funding which is needed has often not been requested by OMB.

Mr. PICKLE. That has been the problem.

Mr. MINETA. And it has been an OMB problem.

Mr. PICKLE. The people I have talked with in the general aviation field, I think recognize that there will be some increase—they would support a reasonable fare increase—but they want to be sure that they get the services for which the funds are raised. If you just keep raising funds and then the FAA and/or OMB, whether it is a brother-in-law arrangement or not, do not spend it, they are taxing and not giving the services.

Mr. MINETA. No question about it. I think we also have to keep in proper perspective that in the past about 84 percent of the aviation trust fund revenues were generated from the commercial ticket tax and that about 9 percent, I believe, came from the freight waybill excise taxes on tires and tubes, and about 7 percent from general aviation taxes. So, to that extent I think we have to keep in perspective that those users of the system are also getting their proportional due in terms of where the moneys are used and how they are used.

Mr. PICKLE. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Schulze will inquire.

Mr. SCHULZE. Thank you, Mr. Chairman.

I would like to thank our colleague from California for an excellent presentation.

Mr. Mineta, I was in the State legislature when we had a great surplus in the unemployment compensation fund and raised benefit levels, and as a consequence the Commonwealth of Pennsylvania now has a deficit of over $1 billion in that fund.

I have seen the social security trust funds go somewhat the same way.

Can you assure this committee that under the lower level of taxation that we will be adequately funded in the out years?

Mr. MINETA. I feel we can, even knowing that we are going to have to have a major computer buy in those out years. Given the kind of increase that is projected for passenger travel in this decade, I really think that we have realistic figures, based on what those drawdowns will be against the aviation trust fund, and feel very comfortable in what we are doing.

Mr. SCHULZE. Do you predict a high, medium, and low range in those levels of usage and levels of taxation?

Mr. MINETA. No. There is a single level of taxation.

Mr. **Schulze**. You say the projections are increased air miles traveled and usage? Was that a constant projection or was that a high, low, or medium projection?

Mr. **Mineta**. It is based on the FAA forecast of increases. As far as operation and maintenance cost, as well as R. & D., F. & E., the major parts of it, I think that the balancing of the tax levels and the spending is something that we are working toward. I think, given the fact that our bill is only to fiscal year 1983, that we all will have enough time to be able to take action to make any future changes that may become necessary.

Mr. **Schulze**. Have the FAA's figures been fairly accurate projections in the past?

Mr. **Mineta**. In terms of the predictions of future revenues, I think they have always underestimated in those projections.

Mr. **Schulze**. Revenues?

Mr. **Mineta**. Yes, very definitely.

Mr. **Schulze**. Thank you.

I thank the Chairman.

Mr. **Gibbons** [presiding]. There is a vote to evolve into a Committee of the Whole on the AWACS issue. Let me ask you, Mr. Mineta, do you feel you would like to run over there and vote right now, or are you willing to pass it up, or what do you want to do?

Mr. **Conable**. Why don't we do that now, Mr. Chairman, and everybody come back quickly, unless, of course, you are emotionally involved in the AWACS?

Mr. **Gibbons**. Let us do that. We will stand in brief adjournment.

[Brief recess.]

Chairman **Rostenkowski**. The committee will come to order.

Mr. Rangel will inquire.

Mr. **Rangel**. Thank you for your thoughtful testimony this morning, Mr. Mineta. I just want to ask a couple of short questions.

When the air traffic controllers went on strike and I talked to my colleagues in Washington, I thought it was the end of the world. When I got back home, no one seemed to care because not that many Americans actually use the airways. I was wondering whether you had any information at all to put into focus as to how many Americans live and die without ever taking an air flight?

Mr. **Mineta**. In terms of percentages, I think it is about 60 percent that fly at some point.

Mr. **Rangel**. With the exception of the military use and Government use, what is it that prevents us from eliminating taxes completely and just have the airlines increase their fares to pay for maintenance and operation, and in place of head taxes just have the airlines pay rent at the airports?

If we are talking about defederalization and getting Government out of the lives of people, why can't we turn the whole operation over to the industry?

Mr. **Mineta**. What we have is a user system that attempts to distribute among the various grades and kinds of users. If we say that we are going to be dependent on only the commercial airliners to fund the system, there are a lot of things that would never get done.

Mr. **Rangel**. Like what?

Mr. MINETA. If we needed a short takeoff and landing strip for a commuter airline or for general aviation purposes, the commercial airlines are not going to want to finance that through their landing fees or lease payments to the airports.

Mr. RANGEL. Why not? It seems to me we don't need anything. It is for the industry to determine what the consumer needs are. If, in fact, there is a demand for this type of service, why, under a free market situation, would not the airlines get together and say, "We need this type of runway and the people are going to pay for it"?

Mr. MINETA. The commercial airliners are not going to want to finance something that is going to be of no use to them except for general aviation purposes.

I think in looking at the total picture, when we think about, as an example, releiver airports to commercial service airports, there is a legitimate need there that has to be taken care of. Yet the total system is really being financed through user taxes, and I think that is a sound approach.

Mr. RANGEL. But you would agree that the less involvement we have with general revenues, the better it would be?

Mr. MINETA. Yes, I do. Our program, I think, is geared to that effect in the sense that we try to take out what would be used for military as well as general public benefit purposes, and the balance then would be financed by the users of the system.

Mr. RANGEL. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Anthony will inquire.

Mr. ANTHONY. Thank you, Mr. Chairman.

I have an interesting parochial question, Mr. Mineta, based on your comment about the increased fares from here to the west coast and how they have gone from $400 to $800.

I have read since airline deregulation that there is an awful lot of competition, and there is a lot of fare cutting on some of the high volume routes. I was curious if your committee had done any studies as to the impact on the excise tax revenues that were lost as a result? I came from the State of Arkansas and, unfortunately, that is not one that has been included in the price-cutting route. As a result, our fares just continue to go up.

I was curious about the lost revenues on a regional basis.

Mr. MINETA. We had a GAO study done on that, and I think most of those fare increases have been generated by cost increases.

As an example, fuel costs that used to represent maybe 13 percent of the cost of the operational expenses of an airline today are probably closer to 40 percent. Those kinds of fuel increases cannot just be hidden; they become very obvious and they are reflected in the fares.

So, the average fares have gone up about 35 percent in the last 3 years; however, costs have gone up about 60 percent, so what the airlines have been able to do is to mitigate or ameliorate at least those increases because of their better scheduling, by having higher occupancies on those flights and other efficiencies, productivity gains within the airline system.

Mr. ANTHONY. There has been a loss of revenue into the trust fund as a result?

Mr. **Mineta**. We have had a loss because of the drop in the passenger levels. I think it has been more than made up by the increased fares.

Mr. **Anthony**. Just the total increase?

Mr. **Mineta**. That is right.

Mr. **Anthony**. Do you have a fixed position as far as the proper mix between revenues from the air passenger ticket tax versus the other? You indicated in your testimony that about 84 percent of the total revenues are generated from the air passenger ticket tax. is that satisfactory to you, or would you like to see that figure lower?

Mr. **Mineta**. I think that is within the jurisdiction of the Ways and Means Committee. By the same token, I think what we can have is a fair balance of the users of the system.

Mr. **Anthony**. Thank you.

I yield back, Mr. Chairman.

Chairman **Rostenkowski**. Mr. Gradison will inquire.

Mr. **Gradison**. Thank you, Mr. Chairman.

Mr. **Anthony**. Mr. Chairman, I assume I have complied with the 5-minute rule?

Mr. **Gradison**. Don't give it away so quickly.

Mr. Mineta, I thought your testimony was extremely helpful. I have just one question.

Recognizing the argument that the issues are not that clear, what proportion of the total budget for these purposes do you think should come from general revenues?

Mr. **Mineta**. We are talking somewhere in the total range of about 44 to 45 percent in terms of what would be considered the public proportion of support for the system. That would be including the two federally owned airports here, National and Dulles, as well as the military operations, the DOD portion and the general public benefit.

Mr. **Gradison**. Is your recommendation of 44 percent or thereabouts colored by the size of the surplus in the fund, or would the answer be the same regardless of whether there was a trust fund balance or not?

Mr. **Mineta**. It would be the same regardless of whether there was a surplus there or not.

Mr. **Gradison**. Thank you for your testimony.

Thank you, Mr. Chairman.

Mr. **Mineta**. Thank you, Mr. Mayor.

Chairman **Rostenkowski**. Mr. Jenkins will inquire.

Mr. **Jenkins**. Mr. Chairman, I have no questions.

Thank you, Mr. Mineta.

Mr. **Mineta**. Thank you, Mr. Jenkins.

Chairman **Rostenkowski**. Mr. Pease will inquire.

Mr. **Pease**. Thank you, Mr. Chairman.

Mr. Mineta, I join my colleagues in commending you for excellent testimony. I think it is very helpful to this committee.

I would like to follow up for just a second on Mr. Gradison, about the portion of general funds to be used for the aviation trust fund. You mentioned, in saying about 44 percent or so would come from general funds, that part of that was justified by the two federally owned airports, part of it by military operations, part of it by general welfare.

Have you gone so far as to break down those three categories? I am particularly interested in the general welfare and how you define that.

Mr. MINETA. No, I have not.

Mr. PEASE. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Ford will inquire.

Mr. FORD. Mr. Chairman, I have no questions.

Chairman ROSTENKOWSKI. Mr. Duncan will inquire.

Mr. DUNCAN. Thank you, Mr. Chairman.

Mr. Mineta, you indicate that current tax revenues should support at least 44 percent of the cost of the FAA. Did I understand you correctly?

Mr. MINETA. User taxes would actually generate closer to 56 percent of the support of the system.

Mr. DUNCAN. I understand it is only 37 percent, according to FAA, 37 percent at the present time.

Mr. MINETA. That is at the present taxing levels.

Mr. DUNCAN. You think it should go up to 44 or 60 percent?

Mr. MINETA. Fifty-six percent.

Mr. DUNCAN. How do you explain the suggestion that the general taxpayers should not have to bear a disproportionate share of the cost of operating and maintaining the Nation's airports and highways?

Mr. MINETA. I think aviation is a system that is supported generally by the users of the system and we believe that that approach can be strengthened and that that is really the proper way to support aviation.

Mr. DUNCAN. Have you given any thought to the future needs of the trust fund?

Mr. MINETA. Yes. The trust fund's future needs are part of this whole formula about what our needs are going to be and they were part of an FAA report as well on what their capital needs would be in the next decade.

Mr. DUNCAN. Capital needs will increase?

Mr. MINETA. That is right, and, of course, the biggest increase will be the computer system for the enroute system.

Mr. DUNCAN. Thank you very much. Thank you for an excellent presentation.

Mr. MINETA. Thank you, Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Are there any further questions?

Mr. CONABLE. Mr. Chairman, I have a question.

Chairman ROSTENKOWSKI. Mr. Conable will inquire.

Mr. CONABLE. Mr. Mineta, I am sorry I did not hear your testimony in chief. I got here a little late. Are you advocating any extension of the purposes for which the trust fund should be spent?

Mr. MINETA. No substantial new purpose.

Mr. CONABLE. Thank you.

Chairman ROSTENKOWSKI. Mr. Gibbons will inquire.

Mr. GIBBONS. Mr. Mineta, I want to find out how you feel about Washington National Airport. Personally, I think Washington National Airport is a disgrace, the way it is operated. It seems to me that the pandering Washington Post is trying to close it down; the bureaucrats who live somewhere near are trying to close it down.

I look upon Washington National Airport as a national asset. It is an opportunity for people to get to their government, to transact their business and to get away at a reasonable cost.

I want to know how you feel, how your subcommittee feels, about the maintenance and the improvement and the expansion of Washington National Airport?

Mr. MINETA. As far as our Aviation Subcommittee is concerned, we have not taken a specific stand relative to National Airport; however, I personally have supported the Secretary's program as it relates to National Airport.

Mr. GIBBONS. What is his program?

Mr. MINETA. The program is one of trying to make sure that the commercial viability of that airport is met at the same time that it be a good neighbor within the area.

Mr. GIBBONS. I know about the neighborhood. I live in the neighborhood. In fact, I saw that article in the pandering Post the other day. I live within the critical area of the neighborhood. Frankly, it is not that bad. My own town of Tampa is noisier than that and I don't live within the critical area, so I don't know what they are complaining about.

The Washington Post has been trying to move us all out to Dulles. I realize some of you folks who live on the west coast have to use Dulles because of the size of the airplanes you fly in. I have computed it would cost my constituents, just to come up here and transact business with their Government, about $200 to $210 minimum cost if they had to use Dulles. They would have to spend the night here. They would be stuck with $40 to $50 worth of cab fare bills that they are not stuck with now.

I take a very dim view of the people who bellyache about the noise. The way I see it, Washington was put here as the Nation's Capital and all of us are here as appendages to that Capital. If the people can't stand the noise, they can get out. That is the way I feel about it.

Now, I am taking a really hard view.

Mr. CONABLE. Mr. Chairman, I don't want to add to the noise here, but will the gentleman yield?

Mr. GIBBONS. Yes, sir.

Mr. CONABLE. I don't disagree with the general thrust of what the gentleman is saying, but it does seem to me that National, because of its size and because of its location, should be primarily a commuter airport for comparatively short-haul people. I realize that Florida benefits considerably from the current status quo of the National Airport and it does seem to me that somebody should be planning the orderly use and development of that, so as to maximize its use and not to force a distorted use of it by sticking with the status quo.

I think the Secretary has that in mind and needs some help in trying to plan a balanced use of National in order to maximize it, not simply to say the way things are now is the way it has to be, with the result that we wind up with a rather unbalanced use of that very important asset to the National Capital Area.

Mr. MINETA. Mr. Chairman, if I might also add, my sensitivity to this issue also comes from my experience of having been the mayor of the city where in the one term we grew in population from roughly 400,000 to 520,000. We also had an airport that expanded in a very rapid way and the impact of that commercial service on that airport today on the community has been great, to the extent that the passengers in and out of that San Jose Airport today exceed Dulles International Airport. So, I am sensitive to the needs of having an airport system that is able to provide service to its constituency, but at the same time has to be a good neighbor.

We see the projections of National Airport going up to some 17 million passengers and beyond. What we are saying in this National Airport policy here is, let us cap it at 16 million. We are already at 14.4 million.

Mr. GIBBONS. The difference between San Jose and Washington, D.C., is that San Jose was put there for the benefit of the people who live in San Jose. Washington, D.C., is here for the benefit of the Nation; it is here so that people can get here, can transact their business with the Government and not be subject to all kinds of harassment of having to ride through the Virginia countryside and spend more money, not spend more money but spend more time, riding through the Virginia traffic jams in the countryside than they do getting here from 800 or 1,000 miles away.

I want to see Washington National Airport improved. The terminal is a disgrace. The ground traffic controller is a disgrace. It looks like it is a deliberate pattern to do the worst you can with the facility you have.

Mr. MINETA. I recognize that. My time has expired, but let me make one point. In terms of those operating and capital expenditures at Washington National Airport, that is really under the Appropriations Committee and not the Public Works and Transportation Committee.

Chairman ROSTENKOWSKI. Mr. Rousselot will inquire.

Mr. ROUSSELOT. Let me ask my colleague, the chairman of the Aviation Subcommittee, you mentioned most of the jurisdiction relating to the problem between Dulles and National Airport is within the Appropriations Committee. Have you gotten into this issue at all in the subcommittee?

Mr. MINETA. I have, to the extent of supporting Secretary Lewis' airport policy.

Mr. ROUSSELOT. Has the subcommittee itself?

Mr. MINETA. The subcommittee itself has not.

Mr. ROUSSELOT. Have you been asked to, from a legislative standpoint?

Mr. MINETA. No, we have not.

Mr. ROUSSELOT. Should you?

Mr. MINETA. I would think that our committee would be just as torn as probably this committee on a standard or pat answer to that issue of the Washington National Airport.

Mr. ROUSSELOT. Realizing I am treading on very tender ground. Dulles is managed by the Federal Government; is that right?

Mr. MINETA. That is correct.

Mr. ROUSSELOT. Are we making full use of that facility?

Mr. MINETA. I don't believe we are, Mr. Rousselot.

Chairman ROSTENKOWSKI. The question is whether we should have built Dulles Airport in the first place.

Mr. ROUSSELOT. I will say to my colleague, that is already done, and you and I don't have much to say about that. The question is, are we making full utilization of the Federal facility?

Mr. MINETA. From our perspective of seeing the facility and the kinds of potential capability in terms of capacity, we are not fully utilizing to an efficient degree Dulles International, and I think that is part of the Secretary's effort, to try to get that kind of utilization and productivity from the expenditures that we have made at Dulles.

Mr. ROUSSELOT. We are spending a lot of money out there as a Federal Government?

Mr. MINETA. That is correct. And, as I said, our airport in San Jose has more passengers in and out of it than Dulles.

Mr. ROUSSELOT. I have been at the San Jose Airport.

Mr. MINETA. As I recall, you have.

Mr. ROUSSELOT. Yes, I have, several times. I would like to assure my colleague from Florida it is not just a minor airport that serves only one small area of California; it serves a very substantial part of northern California and relieves some of the pressure on the San Francisco Airport.

I hope my colleague and his committee might look into this issue, because I question wether we are making full use of a Federal facility for which the taxpayers are paying a great deal.

I am sorry that my colleague feels that National is run so poorly.

Mr. GIBBONS. Will the gentleman yield?

The only thing you should do with Dulles is take a big bulldozer and knock down that terminal. I have never seen one more poorly designed to take care of the public. The architect got his thrill out of designing it, but it is not worth a lot.

The second thing is that it may be a Federal facility but, you know, so was Alcatraz and we are not making full use of that, either.

Mr. ROUSSELOT. We may try again; that is a good idea.

Mr. PICKLE. Dulles is one of the best airfields in the U.S. and it ought to be used to a greater extent.

Mr. ROUSSELOT. I am glad we have heard from the other side.

Mr. PEASE. I don't want to prolong this debate on what really is an irrelevant part of this discussion.

Mr. ROUSSELOT. If you fly out of National, it is not irrelevant.

Mr. PEASE. I do fly out of National. I feel very strongly that the Secretaries of Transportation in the last administration and this both have been trying to have some rational policy about the use of National Airport. I don't think any of us Members of Congress or otherwise, Democrats or Republicans, ought to worship at the shrine of unlimited use of National Airport.

Mr. ROUSSELOT. I thank all my colleagues for a major contribution, especially the chairman of the Aviation Subcommittee.

Mr. FRENZEL. Mr. Chairman, I want to thank the witness for his testimony. I apologize for not being here when he gave most of it.

I suggest that in the Airways Development Act of 1976 there is an exemption for commercial aviation from reimbursing Customs for overtime charges on holidays and Sundays. This is a special subsidy to air travelers on certain days of the year and costs the general public and the Customs Service about $7 million a year.

The Trade Subcommittee has considered asking the committee to make a determination of whether we need to continue this special subsidy. Can you give us your opinion on this matter?

Mr. **Mineta**. I am sorry, Mr. Frenzel, I was asking a question just before you got to the question.

Mr. **Frenzel**. There is in the Airport Development Act of 1976 an exemption for commercial aviation from paying overtime charges for the use of customs agents on Sundays and holidays. Our Trade Subcommittee has suggested that perhaps we ought to end this exemption because it is a special subsidy for the traveling public on certain days.

I am wondering if you have a recommendation for us?

Mr. **Mineta**. I am not sure what the rationale was for that exemption on Saturday and Sunday, but we do have customs problems at the major gateways to the United States. Your question is something I would rather take a look at specifically and respond for the record, if I might.

Mr. **Frenzel**. I would like to have you do that. I think this committee was a little bit disturbed that that item which was really under our jurisdiction was put into that particular bill in the first instance.

Mr. Chairman, I expect the witness can provide the information.

Mr. **Mineta**. Mr. Frenzel, I think it would be better if I study it and respond.

[The information follows:]

Statement by Mr. Mineta in Response to Mr. Frenzel's Question

Existing law in 1976 provided that the U.S. Government pay the costs of providing U.S. Customs Service personnel at airports for the base 8 hours per day, excepting Sundays and holidays. All customs service required beyond that eight hours per day, or at any time on Sundays or holidays, generally had to be paid for by the airlines.

The 1976 amendment simply provided that Sundays and holidays would be treated the same as other days, specifically that the base hours of customs service would be funded by the U.S., and that additional time would be at the expense of the airlines.

The 1976 amendment was initiated neither in the Public Works and Transportation Committee nor in the House. It was a provision added to the bill in the Senate and then accepted in conference. Our bill this year contains no provisions related to this or other customs issues, we have not deliberated on these matters, and our Committee has no formal position or recommendation on this issue.

As an individual Member, however, it seems reasonable to me that the same provisions should apply on Sundays and holidays as apply on other days. Air travel to or from our nations shores is a seven day a week matter, and what is a fair division of customs costs six days a week is also a fair division on the seventh day.

Mr. **Frenzel**. I want to comment on National since everybody else has, just to tell you I feel somewhat the way Mr. Gibbons does, that it is a national airport. It seems to me that the decision worked out by some Members of Congress and by the administration would tailor to the needs of local folks rather than to those people who fly in and out of there.

I hope in the future when you are working on that subject that you remember that the whole country uses that airport; it is not designed for the use solely of Virginia or Maryland residents.

Having said that, I would like to go back to your testimony where you talk about the President's suggestion for raising the taxes on aviation gas and jet fuel to very high levels.

You suggest that that is not needed, but you don't suggest what should be done. Would you want to be more specific?

Mr. **Mineta**. Since that is really within the jurisdiction of the Ways and Means Committee, I have not made a specific recommendation. My feeling is, however, that those amounts are not needed, as advocated by the administration. If I were to make a recommendation, specifically, I would think it would be somewhat in the area, let us say, of 8½ to 10 cents. Again, what we are trying to do, I think, in our effort is to try to weigh what the future needs are in terms of the drawdown against the aviation trust fund and try to finance it with the proper level of fees.

Mr. **Frenzel**. I thank you for being brave enough to make the suggestion. I agree with you. I think the problem on the part of this segment of aviation is that there never has really been a showing of what services are being offered to them; and whether those services are actually needed by them; or are of any help to them, and then trying to assign a dollar value to those services.

Did the administration do this in hearings in your committee?

Mr. **Mineta**. There was a cost allocation study in 1978 where they talked about the range of 63 to 74 percent. The 63 percent purports to be computed on the basis you suggest.

Mr. **Frenzel**. I think we will be interested in hearing the testimony of other witnesses on that subject.

Mr. Chairman, I thank the witness and yield back the balance of my time.

Chairman **Rostenkowski**. Are there further questions?

There being none, we thank you, Mr. Mineta.

Mr. **Mineta**. Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Our next witness is Mr. Dan Glickman, chairman of the Subcommittee on Transportation, Aviation, and Materials of the Committee on Science and Technology.

Welcome to our committee. We thank you for your testimony.

Mr. **Glickman**. Thank you, Mr. Chairman. Barry Goldwater is the ranking member; perhaps we could do this together.

Chairman **Rostenkowski**. That is fine.

STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS, AND CHAIRMAN, SUBCOMMITTEE ON TRANSPORTATION, AVIATION, AND MATERIALS OF THE COMMITTEE ON SCIENCE AND TECHNOLOGY

Mr. **Dan Glickman**. Mr. Chairman, I ask unanimous consent that my entire statement appear in the record. I think Mr. Goldwater will have a statement after me.

I might make one comment on Dulles. I think the real issue is safety. Our subcommittee has the jurisdiction over the FAA R. & D. aspects, the front-end money for computer systems and for collision avoidance systems.

My personal concern is not so much the noise but the matter of using current technology for operating radars and for landing systems at Washingtoin National Airport because it is a major national airport. Any pilot in the country will tell you that.

My point is that unless we are able to make dramatic improvements in, let us say STOL aircraft or in the kind of landing systems that need to be done, I think at some point that airport's use is probably going to have to be restricted in light of increasing use. I think that is generally realized by most airline pilots.

Chairman ROSTENKOWSKI. Are you talking about a perimeter from which National Airport will be accessible?

Mr. DAN GLICKMAN. No. I am talking about numbers of aircraft coming in there more than anything else. It may be if we develop the prop-fan and STOL technology or other new kinds of aircraft that can go in and land in shorter distances, I think the airport can be operated safety.

I realize there has not been a fatal catastrophe since 1949, but the big concern I have——

Mr. GIBBONS. That was a midair collision.

Mr. DAN GLICKMAN. Running into the back of another plane. Most pilots will tell you that National presents problems, not catastrophic problems but problems.

Mr. GIBBONS. There are a lot worse airports in the United States.

Mr. DAN GLICKMAN. I agree.

Mr. GIBBONS. They will also tell you that with a microwave landing system, if FAA will ever get off its tail and license, Washington National will be as good as any other airport. I have heard all the arguments, and I have dismissed them all, as to being on subsidy. The Washington Post and Congressmen living around there are pandering to their people. This is the Nation's Capital. This is not the District of Columbia's Capital or their city; it is the Nation's Capital, designed to serve the Nation and not just a few people who own some real estate around there. The buses make more noise than the airplanes do.

Mr. GOLDWATER. If I can interject on that particular subject, Mr. Gibbons——

Chairman ROSTENKOWSKI. Are you going to make a formal statement?

Mr. GOLDWATER. Yes.

Chairman ROSTENKOWSKI. Why don't you present your formal statement.

Mr. DAN GLICKMAN. Mr. Chairman, I thought I would mention two things: One is that this subcommittee, while it does not handle the operating funds of the FAA, as does Mr. Mineta's, we do handle all the research and development funds, which are basically the front-end dollars for all the major R. & D. projects.

FAA is contemplating the largest computer purchase or acquisition by the Government of the U.S. outside the Pentagon. They are also contemplating some major collision-avoidance system improvements which might or might not entail a drain on their operating expenses. I happen to believe that the new FAA Administrator is doing an excellent job in dealing with those issues, but we do authorize significant front-end dollars on where they are going to be spending their outyear dollars, so we have some concern about the whole issue.

Second of all, from a parochial interest, my hometown produces 55 percent of all airplanes made in the world. Most of them are small airplanes. I come here basically wearing two hats: One is to make sure that the system is adequately funded; the other is to express some concern about the current safety of general aviation and what the effect of increased taxes might be on general aviation.

I urge you to reject the administration's proposal for greatly increased taxes on noncommercial aviation fuel. I don't think those increases are needed to fulfill the promise of the trust fund.

In passing the Airport and Airways Development Act 10 years ago, it was the clear intent of Congress that the funds generated by taxes and user fees would be used to enhance the safety of U.S. air transportation. Since then, the taxes have been most successful in generating the needed revenues; but, unfortuntely, they have not been used promptly to achieve their very important end.

Instead, a good part of those revenues have been allowed to lie idle in the trust fund, thereby helping OMB to improve the overall budget picture.

I should clarify that: They are not entirely idle, since they are drawing interest at the rate of about $300,000 a month. They are just not being used for the purpose intended. What it amounts to is nothing more than a budget shell-game. It is a ripoff of the American flying public which has paid their money in good faith.

I do not understand the reason for not spending the trust fund money. Perhaps it is to continue the past practice of using trust fund surpluses to help offset general fund deficits. As I said before, this puts Govenment in a profit-making business at the expense of the flying public, and it is totally inappropriate.

The other possible reason is that they want the trust fund to assume an even greater portion of the FAA's operational costs, perhaps all of them.

I think the statement by Mr. Mineta is an entirely appropriate one. Perhaps the trust fund could be used for half the cost. In any event, I think the key issue is safe air commerce. Everybody benefits by aviation safety, whether you fly or whether you live under a flight pattern. The whole purpose is to make sure there are adequate revenues and make sure they are spent appropriately.

The point I make in all of this is a simple one: It makes no sense whatever to increase taxes drastically when the trust fund is overflowing, when both past and present administrations have refused to spend these funds on safety or productivity improvements and when it would be improper to increase greatly the amounts spent on operation of the airway system.

For these reasons, I am opposed to the administration's bill.

Instead, I would favor a more moderate approach, one that would permit a drawdown of the surplus and at the same time provide for the substantial capital investment that will be needed over the next decade.

I also think it is important that the bill include a provision that will make certain that the funds which have been collected from aviation taxes over the past year since the ADAP legislation lapsed, are transferred back into the trust fund where they belong.

Since the inception of the program that has been the intent of these taxes, but since last October revenues from the taxes which continued to be collected have been going into the general fund and the highway trust fund instead of to the aviation trust fund for which they were intended.

Finally, I might add this: The capital investment needs have not been reflected in the administration's request for authorization for the trust fund. Several Members asked this question. The full R. & D. and hardware costs that will accompany replacement of the air traffic control enroute computer system could run up to $3 billion by the year 1990. Those costs have not been reflected at all in the administration's proposal to date.

I realize the Administrator can amplify that and he is working to come up with cost estimates. But my biggest fear, particularly after our air traffic controllers' strike and after the number of outages that have been going in our air traffic control system, is that we will get a plan developed to replace these computers and related equipment and then OMB says, "No, we won't let you spend the money."

The biggest problem we have today is not the level of taxation but the fact that once the moneys are there for safety purposes, they will not be spent.

Lastly, the Science and Technology Committee passed out a resolution that will urge and compel the FAA to come back to Congress with a plan on replacing the system no later than June 15 of next year, together with cost projections. I am hopeful once we get those projections you will get a better idea of how much it will cost over the next 10 years to run the airport system.

Finally, a word about general aviation:

I think it is fair to say the industry is in the midst of a recession. The sale of general aviation aircraft, particularly the higher-volume small variety, has fallen dramatically. In 1979 that industry sold 17,000 units. Last year it was 12,000. This year it is projected to be 10,000. Coupled with the recent FAA announcement that requires a reduction in the number of general aviation flights as part of the system, I think that we have a serious problem with this industry.

What really worries me as we look at the administration's position on general aviation fuel taxes is that it could be catastrophic for the industry. Since the revenue is not needed, at least right now, and nowhere would the revenue be needed in the amount I think that they want in terms of these increases, the increase can only be viewed by the industry and all those who fly as something punitive.

Mr. Mineta has brought out a bill that is a 2-year bill; it is 2 years for the F. & E. facilities and expenditures, 2 years for operation and maintenance.

Our subcommittee has only a 1-year bill for research and development. Yet all the major improvements that we are talking about are going to take many, many years and they have to be done right away.

The safety of the American public will be seriously jeopardized if we don't move ahead right away. I don't envy your job deciding how we structure the revenue side of the picture when they give you only a 2-year bill. In December 1980 they came out with a national aviation system development and capital needs. This was former Administrator Bond. That has been rejected by the current Office of Management and Budget.

We are in a state of confusion on where we spend our money and how much. We know we have a big surplus, but it is not being spent. We have aviation safety needs. We realize we have general budget problems.

From our subcommittee's point of view, we need to move ahead with some of these computer replacement needs as soon as possible. We realize the health of the aviation industry could be jeopardized, in fact, would be jeopardized, by excessive taxation.

Thank you.

[The prepared statement follows:]

STATEMENT OF CHAIRMAN DAN GLICKMAN, SUBCOMMITTEE ON TRANSPORTATION, AVIATION, AND MATERIALS

Mr. Chairman, I appreciate the opportunity to be here today. As you know, the subcommittee that I chair shares responsibility, in the House, with the Public Works Aviation Subcommittee, for authorizing expenditures from the Airport and Airway Trust Fund. So we are very interested in any proposals that relate to the source of funds for those authorizations.

Our portion of the jurisdiction includes the FAA's R&D program. This program has a relatively small dollar content. But I feel its true importance is much greater, because today's million dollar R&D projects have a way of becoming tomorrow's billion dollar capital expenses. So we look at the FAA's proposals very carefully each year.

Furthermore, the topic you have under discussion is of particular importance to my state of Kansas, both because of the reliance of Kansans, who must travel considerable distances, on air transportation and because of the importance of the aviation industry to my own congressional district.

I come here today to urge you to reject the administrations' proposal for greatly increased taxes on non-commercial 'aviation fuel. Those increases are simply not needed to fulfill the promise of the trust fund.

In passing the Airport and Airways Development Act ten years ago, it was the clear intent of Congress that the funds generated by taxes and user fees would be used to enhance the safety of U.S. Air Transportation. Since then, the taxes have been most successful in generating the needed revenues, but—unfortunately—they have not been used promptly to achieve their very important end. Instead, a good part of those revenues have been allowed to lie idle in the trust fund thereby helping OMB to improve the overall budget picture. I should clarify that. They are not entirely idle, since they're drawing interest at the rate of about $300,000 a month. They're just not being used for the purpose intended. What it amounts to is nothing more than a budget shell game. It is a rip off of the American flying public which has paid their money in good faith.

Currently there is an unexpended surplus of some $5 billion in the trust fund. So no one can argue that new taxes are needed to bolster the fund. There must be some other reasons.

To my mind there are only two possible explanations for advocating the kinds of increases that appear in the administration's proposal.

The first is that they wish to continue the past practice using trust fund surpluses to help offset general fund deficits. This, as I've indicated, puts government in a profit making business, at the expense of the flying public. And it is totally inappropriate.

The other possible reason is that they want the trust fund to assume an even greater portion of the FAA's operational costs—perhaps all of them. The argument in favor of this change would be that the user's of air transportation should bear its full cost. They should pay, not only for their direct costs, but also for the Federal overhead in operating the airway system.

But this line of reasoning overlooks the very substantial benefit that the public at large derives from having efficient and, above all, safe air commerce. Even people who never fly benefit in countless ways because others are able to do so safely. (One obvious way is that they avoid having airplanes falling on them).

This being the case, I feel the general taxpayer must share in the cost of operating the system. It would be unfair to ask the direct users to shoulder the entire cost.

The point I make in all of this is a simple one. It makes no sense whatever to increase taxes drastically when the trust fund is overflowing, when both past and present administrations have refused to spend these funds on safety or productivity improvements and when it would be improper to increase greatly the amounts spent on operation of the airway system.

For these reasons, I am opposed to the administration's bill. Instead I would favor a more moderate approach—one that would permit a draw down of the surplus and, at the same time, provide for the substantial capital investment that will be needed over the next decade. I also think it is important that the bill include a provision that will make certain that the funds which have been collected from aviation taxes over the past year since the ADAP legislation lapsed are transferred back into the trust fund where they belong. Since the inception of the program, that has been the intent of these taxes, but, since last October revenues from the taxes which continued to be collected have been going into the general fund and the highway trust fund instead of to the aviation trust fund for which they were intended. The only reason they weren't properly directed was the fact that we did not act fast enough in reauthorizing this legislation. As we move ahead with reauthorization, we need to make sure we rectify this unanticipated side-effect.

Incidentally, I might add that the capital investment needs have not fully reflected in the administration's request for authorizations from the trust fund. For example, they have not even begun to recognize the full R&D costs that will accompany replacement of the en route computer system.

And there are others. So I woudn't be too hasty in sizing the taxes rigidly to the administration's request for authorizations. Leave some flexibility.

Finally, Mr. Chairman, let me say a few words specifically about general aviation. This industry is in the midst of a recession. High interest rates, escalating costs and high fuel prices have all combined to weaken the sales of G/A aircraft, particularly the higher volume small variety. For example, in 1979 the industry sold a total of 17,000 units, last year it was 12,000 and projections for this year are only 10,000.

So any major increase in G/A fuel taxes might just further aggravate this downward trend. And since the revenue is not needed in the first place, such an increase could only be viewed by the industry and all those who fly as something punitive.

Mr. Chairman, thank you for the opportunity to present my views.

Chairman **Rostenkowski**. Mr. Goldwater, you may proceed.

STATEMENT OF HON. BARRY M. GOLDWATER, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA AND RANKING MINORITY MEMBER, SUBCOMMITTEE ON TRANSPORTATION, AVIATION, AND MATERIALS, COMMITTEE ON SCIENCE AND TECHNOLOGY

Mr. **Goldwater**. Thank you, Mr. Chairman.

Let me commend the committee for undertaking this difficult task. I generally agree with the thrust of Mr. Glickman's remarks and would emphasize that we do have a surplus of approximately $2.9 billion in the aviation trust fund. It has long been an embarrassment because of the fact that it has not been spent. Users have been taxed without getting enough for their tax dollars.

I introduced a bill several years ago to separate the trust fund from the unified budget so that those moneys, instead of being held hostage, could be used for aviation safety purposes.

But the best way to control the surplus is to set taxes at a level to cover expenditures. Actually, the taxes could be slightly below expenditures for a few years to draw down the surplus to a reasonable level of, say, $1 billion.

However, this is easier said than done. Historically, it has been hard to pin down the administration on what expenditure levels are needed for safety and adequate growth. Administrator Helms is hard at work at this task now, but it is difficult to tell when an OMB-approved spending plan will reach the Hill.

I, myself, believe that substantial sums will be required to upgrade the air traffic control system and the airport system over the next decade. But since we don't have clear spending plans from the FAA, I suggest we keep taxes to a minimum during the 2-year life of the House ADAP bill—fiscal year 1982 and 1983.

By the time of the fiscal year 1984 budget, Administrator Helms should have a solid 5-year plan available and we in Congress can set taxes to cover the expenditures in a 5-year ADAP bill.

I generally support President Reagan's user charge concept but not the dollar amounts in the original administration bill, H.R. 2930. That is, 65 cents per gallon on jet fuel and 36 cents per gallon on avgas by 1985.

My main reasons for this are, first, the trust fund surplus, as I described; and second, the sad state of the general aviation industry today. We watched aircraft deliveries in the first half of 1979 at 8,963 units decline to 5,000 in the first half of 1981. At that rate of decline, by 1984 there would be no deliveries at all. Obviously we don't want that to happen and I don't think it will.

If you put a heavy tax on general aviation, you are going to discourage the production end of that business. I don't think that is healthy because if you do that, then you are going to be greatly diminishing the revenue income.

The third reason I am opposed to high user taxes is the fact that general aviation access to the air traffic control system will be curtailed during the post-PATCO rebuilding period. Obviously, if general aviation is not using the system, then certainly they should not be required or expected to pay for that system.

So, generally, Mr. Chairman, I think that the concept of user taxes is important and I support it. I think you should take into consideration the surplus that exists and set those taxes accordingly to accommodate the 1982-83 proposed expenditures in the Mineta bill.

For that reason, I would suggest that for the 1982-83 time period reasonable tax levels would be about a 4-percent airline ticket tax and an 8.5 cents per gallon tax on aviation gas and jet fuel.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Barry M. Goldwater, Jr., Ranking Minority Member, Subcommittee on Transportation, Aviation, and Materials

Thank you, Mr. Chairman. I would like to associate myself with Chairman Glickman's remarks, with a few exceptions and amplifications.

The excessive surplus ($3.7 billion) in the aviation trust fund has long been an embarrassment. Users have been taxed without getting enough for their tax dollars. I introduced a bill [H.R. 105] to remedy the situation.

But the best way to control the surplus is to set taxes at a level to cover expenditures. Actually, the taxes could be slightly below expenditures for a few years to draw down the surplus to a reasonable level—say $1 billion.

However, this is easier said than done. Historically, it has been hard to pin down the administration on what expenditure levels are needed for safety and adequate growth. Administrator Helms is hard at work at this task now, but it's difficult to tell when an OMB-approved spending plan will reach the Hill.

I myself believe that substantial sums will be required to upgrade the air traffic control system and our airport system over the next decade.

But since we don't have clear spending plans from the FAA, I suggest we keep taxes to a minimum during the 2-year life of the House ADAP bill—fiscal years 1982 and 1983.

By the time of the fiscal year 1984 budget, Administrator Helms should have a solid 10-year plan available, and we in Congress can set taxes to cover the expenditures in a 5-year ADAP bill.

I generally support President Reagan's user-charge concept, but not the dollar amounts in the old administration bill (H.R. 2930) i.e., 65 cents per gallon on jet fuel and 36 cents per gallon on avgas.

My main reasons for this are:

One, the trust fund surplus as I discussed;

Two, the sad state of the general aviation industry today;

Three, the fact that GA access to the ATC system will be curtailed during the post-PATCO rebuilding period.

I'd like to discuss the second and third items now:

Recently I was reading some figures on aircraft deliveries by members of the General Aviation Manufacturers Association:

In the first half of 1979, they delivered 8,863 aircraft;

In the first half of 1980, they delivered 6,268 aircraft; and

In the first half of 1981, they delivered 5,021 aircraft.

I took out a piece of graph paper, plotted these three points, and drew a straight line between them. The line intersected zero in January 1984—in other words, by that date no planes would be delivered at all.

Now obviously, we're all hoping that the straight line approximation will actually turn out to be a rising curve of recovery. However, higher taxes may prevent such a recovery. So postponing a tax increase may be necessary to avoid killing off the source of taxes.

Let me turn now to my third point—that GA access to the ATC system is being substantially cut by the FAA during the post-PATCO rebuilding period. It doesn't make much sense to tax someone for a service then deny them access to that service. By fiscal year 1984 the ATC system should be back to normal, and we can fairly tax GA for a service which they do receive.

In view of all these considerations, I feel that for fiscal year 1982 and 1983 time period of H.R. 2643, reasonable tax levels would be a 4 percent airline ticket tax and an 8.5 cents per gallon tax on avgas and jet fuel.

Thank you.

Chairman ROSTENKOWSKI. Thank you.

Mr. Gibbons will inquire.

Mr. GIBBONS. I thank both of you for your statements.

I support the idea of the user tax. I support the idea of the user tax if it is collected in reasonable proportion to the needs of the industry for the users that are using it that we are levying it for.

I am sorry that the trust fund has ended up with this surplus. It really has been used by all administrations to help camouflage the budget deficit that we have had. I don't think it is fair to do it that way.

Also, really, we should have allocated more of that user fee to the operation and maintenance of the system. I think that is a reasonable allocation of user fees to the operation and maintenance of the system.

I have been worried, as you have been, about the safety of the system and as to whether or not the FAA is planning far enough in advance for the type of system and the number of aircraft we are going to have.

Do you think they have been planning for it in advance?

Mr. DAN GLICKMAN. From my own perspective, I have extreme confidence in Mr. Helms in terms of his ability to modernize the system. However, I don't have confidence that he will be more successful in dealing with OMB than his predecessors have.

As I see it right now in terms of the entire budget picture, whether it comes out of the trust fund or wherever, it will still reflect expenditures from the general fund. I think OMB is going to fight Mr. Helms tooth and nail on every one of these long-term capital expenditures, from improvements in the computer system to improvements of runways, and even on operation and maintenance.

So, I just think it will be a constant perennial battle. I have confidence that he wants to move ahead.

Mr. **Gibbons**. Are they planning far enough in advance?

Mr. **Dan Glickman**. We have not seen a 10-year plan. We did have a 10-year plan by Mr. Bond last time. It is my understanding from my conversations with Mr. Helms that they are beginning to do that right now.

Mr. **Goldwater**. I would say the FAA is working on future plans. Our aviation system is by far the safest in the world and, obviously, the safest mode of transportation that we know.

Mr. **Gibbons**. I understand all that, but I look out of plane windows and see planes darting all over the place. I realize that the use of the air space is growing very rapidly. I have been in the FAA control centers and seen the clutter that you see on those scopes, and I know something about the problems of today and what it is going to be as more people use air travel.

Mr. **Dan Glickman**. For years we have toyed with the idea of having devices in airplanes to warn you against colliding with other airplanes. For years nobody has done anything about this. For years we have been coming up with plans and all sorts of acronyms and expensive procedures. This Administrator has developed a plan that for the first time seems to be in the stage of implementation. It will take a few years to come about. That kind of implementation would probably have prevented the San Diego collision and many other midair collisions.

You mentioned scopes. Those computers have to be replaced or at least modified. We have toyed with that idea in the bowels of the bureaucracy in the FAA for years regarding what kind of system should it be, and never would OMB fund it.

Mr. **Gibbons**. How about requiring general aviation to have transponders? You have a plane appearing on the scope with no flight plan.

Mr. **Goldwater**. That now is a requirement.

Mr. **Gibbons**. That all general aviation have transponders?

Mr. **Goldwater**. If they fly into a terminal control area.

Mr. **Gibbons**. That means that everybody has them if you fly into a terminal control area. There are some simple things that you can do that won't cost a lot of money. General aviation is usually the one that resists that kind of change.

That is all I have, Mr. Chairman.

Chairman **Rostenkowski**. Mr. Pickle will inquire.

Mr. **Pickle**. Mr. Chairman, I don't believe I have a question, except to thank both Congressmen Glickman and Goldwater for being with us today.

I take it that both of you approve of the user fee concept, but both of you oppose the bill that has been proposed by the administration and that you would recommend a fuel tax somewhere in the area of 8.5 to 9 or 10 cents per gallon. Is that generally correct?

Mr. **Goldwater**. The level that I would recommend is 4 percent on the ticket tax and 8.5 cents per gallon on avgas and jet fuel. That generally allows a projected drawdown on the surplus and would provide funds for the 2 years. After that, working with the FAA, we will have a better perspective as to what those taxes should be.

Mr. **Dan Glickman**. I think those numbers are good. I don't know what you are going to do after the 2-year period of time. You will have to try to get some long-term projections from FAA.

Mr. **Conable**. Do you want to see any change in the purposes for which the trust fund may be used? Do either of you advocate any changes in the purposes for which the trust fund may be used?

Mr. **Dan Glickman**. You mean statutory changes?

Mr. **Conable**. Yes.

Mr. **Dan Glickman**. No.

Mr. **Conable**. You don't see any coming up over the horizon?

Mr. **Dan Glickman**. Not until we see the long-term plans of the FAA. Based upon previous plans, the answer is no.

Mr. **Conable**. I am always suspicious of trust funds that look like big ripe melons for somebody who wants to come along and cut a new slice out of them.

Mr. **Dan Glickman**. Some would argue that we pay 100 percent of the operating expenses out of the trust fund. Mr. Mineta pointed out it ought to be 50 percent as a maximum.

Mr. **Conable**. There is a public interest in air travel that goes beyond the specific users of that travel; I acknowledge that.

Thank you.

Mr. **Goldwater**. I have one observation that I think is important to make: I'm not sure this committee can do anything about it. If we are asking the users to increase their percentage of the cost of the FAA, it just seems to me that those people ought to have more of a say as to what kind of system they are paying for.

One of the big complaints of general aviation is that in essence the system has been built primarily to handle commercial aviation. Since the system is there, general aviation uses it. That is not to say general aviation does not benefit. But I am not so sure that general aviation needs are as great or as costly as those which we have or which we are planning.

So, it seems to me if you are asking these people to increase their financial participation, somehow there ought to be a way of finding out what these people really want.

Chairman **Rostenkowski**. Mr. Rangel will inquire.

Mr. **Rangel**. Thank you.

Mr. Goldwater, could you adopt some type of plan that would allow the aviation industry to take care of its own needs and to get Government out completely and not provide any user tax or any other type tax and just compete with other means of transportation, and where they use the airports that they pay for the use of the airports, and take the general public out of subsidizing the industry, with the exception of the military/Government functions?

Mr. **Goldwater**. I think you can really have only one control system. It does not lend itself to a competing kind of system. As far as controlling on a worldwide basis—and this is basically a worldwide system and it is compatible—you can only have one type of system.

Now, I think that there are services that the user does benefit from and I think he has no problem in paying for them as long as it's reasonable. But the problem occurs when you have one system that is controlled from Washington, D.C., that that user does not really have any input into. Then all of a sudden you are building control towers and you are putting systems' equipment in fields where it may not be necessary for the level and general use of that airport. Then he, all of a sudden, is expected to pay for it.

Mr. **RANGEL**. You are talking about general aviation?

Mr. **GOLDWATER**. Yes.

Mr. **RANGEL**. If you think that is a problem, then how do you feel about somebody who is not involved with general aviation or commercial aviation and they are paying for both?

Mr. **GOLDWATER**. The general public benefits from having a safe, expedient, efficient air transportation system.

Mr. **RANGEL**. Isn't that what the free marketplace is all about—competition and getting government out of it? Of course, we are the beneficiaries of it because we take our dollars and we buy the best service.

Mr. **DAN GLICKMAN**. I think the safety issue gives the Government some inherent role in that area.

Mr. **RANGEL**. We have regulations, but we are going to provide safety standards for any industry. I understand your interest because you manufacture planes, but those who just fly airplanes around, I think, ought to pay a little more than those people who will never fly.

Mr. **DAN GLICKMAN**. There is some merit to your point. Maybe we ought to consider—this was suggested by the previous administrator—employing controllers not by the Government of the United States but perhaps by a pool of airlines or private sector operators.

Mr. **RANGEL**. To me it is absurdity. Perhaps it is a good subsidy, but I don't think we ought to be selective and give a lot of political talk about deregulation when it is convenient, and then come back and talk about the Federal role when it costs the private sector.

Mr. **GOLDWATER**. The purpose of the air traffic control system is to maintain separation so that two aircraft flying over the city of New York do not collide. Now, you tell me who should control that system?

Mr. **RANGEL**. Mr. Goldwater, the pilots should control the system; they are the ones that will be colliding with each other. They have an employer and they just bargain for the highest possible safety standards. As long as my pilot feels confident, I am confident.

Mr. **GOLDWATER**. When the sky is blue and they can see, that is probably a good suggestion.

Mr. **RANGEL**. When the sky is not blue you don't fly.

Mr. **DAN GLICKMAN**. Do you feel the same way about food safety, too, there ought to be no regulations, you eat what you want?

Mr. **RANGEL**. I am trying to be consistent with the administration. The administraton allows the industry to get out of food safety. I just wonder whether or not they are selective in where they want the Federal Government's presence to be felt.

Thank you.

Chairman **Rostenkowski**. Thank you.

Mr. Ford will inquire.

Mr. **Ford**. Mr. Glickman, I would like to make one comment: You mentioned earlier that there is $5 billion surplus in the trust fund now, that we should try to drawdown on the trust fund, at the same time not try to increase the trust fund at all.

You also indicated that maybe we should take a more moderate approach at trying to drawdown and at the same time look at other ways of putting money in the trust fund.

I notice in your testimony you did not make mention of the moderate approach.

Mr. **Dan Glickman**. I think we ought to have an ADAP bill, and I think you are going to have taxes, user fees, as well as passenger taxes. I submit, with a moderate drawdown of the Airport and Airway Trust Fund, coupled with moderate user fees, you can accomplish the same thing, and you can keep our airways safe.

I was not intending to imply I was not supporting user fees.

Mr. **Ford**. You are not saying that we ought to drawdown $5 billion in the trust fund, are you?

Mr. **Dan Glickman**. What I am saying is that there is a large amount of money there and I am not quite sure why that hedge is so significant. We can reduce that to $1 billion and, coupled with reasonable tax increases, provide a pretty good safety and capital improvement picture for our airways.

Mr. **Ford**. Mr. Mineta indicated he would not exhaust the total surplus in the trust fund. I didn't know, when you talked about drawing down, whether you meant all of it or keeping some reserve in the trust fund?

Mr. **Dan Glickman**. I think we have to keep some reserve.

Chairman **Rostenkowski**. Mr. Duncan will inquire.

Mr. **Duncan**. I have no questions.

Chairman **Rostenkowski**. Mr. Frenzel will inquire.

Mr. **Frenzel**. Mr. Chairman, I would like to ask the witnesses, after thanking them for their splendid testimony, the same question I asked Mr. Mineta, about the increase on general aviation gas and jet fuel:

Is it your best estimate that that increase that you suggested between the 8.5 to 10 cents on aviation gas is what is required to have that segment of aviation pay its reasonable expenses of maintaining the Federal safety system?

Mr. **Dan Glickman**. My answer is yes.

Mr. **Goldwater**. I don't think we really know what that percentage is yet. There have been a number of studies and a number of proposals on what percentage should be paid by each user's group. We are recommending that the taxes be set for the next 2-year period. In doing so, I would suggest that you take into consideration the fact that the FAA will be placing restrictions on general aviation flights as they rebuild the air traffic control system and replace the air traffic controllers.

Therefore, I am of the opinion that in the short run the burden should not be overly great on general aviation due to their limited access to the system.

Mr. **Frenzel**. That is my problem and the complaint I get from my constituents who are part of general aviation. In a word or in a phrase, it is that they are getting services provided for them which they don't want, often can't use, and often are not very helpful, and then are being asked to kick in for it.

Now, that is a typical Federal exercise: "We will give you something and ask you to pay for it whether you need it or not."

I am wondering if you have any good testimony provided by the Administration that shows that the 8 or 10 cent raise on aviation gas actually provides useful, needed services that provide a safe flying environment? I don't know.

Mr. **GOLDWATER**. Your guess is probably as good as mine, as to what those percentages should be as a contribution to the trust fund. Right now, I believe the ticket tax and cargo tax generate about 85 percent of the income to the trust fund. Whether that should be less or more, I think it tends to be somewhat arbitrary right now, because I don't think anybody knows. You can ask five people and you will get five different opinions.

Mr. **DAN GLICKMAN**. Really, it is a guess. The only thing I will tell you is that even with the complaints you might hear, I think fundamentally people will get pretty good service out of the FAA. Most general aviation pilots tell me that on the whole there are no serious complaints.

In terms of what percentage they ought to pay, I just want them to pay their fair share without being cleaned in the process.

Mr. **FRENZEL**. I think they want to pay their fair share. We did the same thing with user charges on inland barge transportation, where they bring in these absurd numbers, where they are asking commercial transporters to pay for esthetic riprapping of rivers going through cities and for environmental considerations, where you have to pipe spoil 300 miles to some desert someplace—those people should not have to pay for those sorts of things. I don't know enough about flying, but we are looking to you to tell us what the reasonable contribution is.

Mr. **DAN GLICKMAN**. Mr. Helms is here and I think he might be in a position to tell you that he is looking at some of the past recommendations of the FAA as to what they are talking about in major capital expenditures. He may have some ideas to reduce those a bit in order to provide the same services without frills.

I think you have to yield to experts on that.

Mr. **FRENZEL**. I thank you.

Chairman **ROSTENKOWSKI**. Mr. Bailey will inquire.

Mr. **BAILEY**. I hate to disappoint my Chairman, but I have no questions. I would just like to thank the witnesses very much.

Chairman **ROSTENKOWSKI**. Mr. Anthony will inquire.

Mr. **ANTHONY**. Mr. Glickman, you said something in your testimony that I must admit bothers me. During most of 1981 I did serve on the Budget Committee and I did have an opportunity to hear many witnesses testify from OMB and Mr. Stockman himself on numerous occasions.

It appears to me you are saying OMB is more worried about the bottomline than they are concerned about policy, the policy of safety and the policy of modernization and any other policies that may occur within the general aviation field itself. I would just like to hear your personal opinion as to what you think this committee could do, or what the Congress could do, to change the attitude of

OMB as far as only looking at the bottomline, because I must admit that I do agree with you.

Reluctantly, I came to that conclusion and asked Mr. Stockman about it at the last opportunity.

Mr. **Dan Glickman**. In my judgment, the FAA is making an honest effort to try to improve air safety. In my judgment also, it appears to me that the goal of OMB is not air safety but the bottomline, the overall budget. Therefore, I make the categorical statement: the Office of Management and Budget is clearly in the position of fighting improvements in air safety in America.

I don't want to see that happen. All we can do is keep the pressure on them, because if you have a major midair collision down the line and if we had a plan on the books to improve the computer system and they fought it because the deficit was too big, the burden will be on their backs. In the meantime, we will have lost many lives in the process.

Mr. **Goldwater**. I introduced a bill, H.R. 1051, to separate the aviation trust fund from the unified budget. I think that will alleviate this problem.

The surplus is there and it ought to be spent for safety reasons.

Mr. **Anthony**. I want to thank you for your testimony. I am thanking you because it coincides with my own personal viewpoint, but I think it is incumbent on us to keep the pressure on OMB because I think more than ever they are concerned about the bottomline and it is too easy sometimes to publicize the bottomline and make people overlook the major policy decisions that drive that bottomline. Sometimes the bottomline needs to yield for great policy decisions.

I think air safety obviously is one of them. For my own personal well-being, I would not mind seeing the deficit swell just a little bit if I knew I was going to be able to fly back to Arkansas during the 27 times I fly back and forth to try to communicate with my constituents.

I think you could multiply that throughout the whole Congress and the whole United States, so keep the pressure up and I will try to keep the pressure on them from this end.

I yield back the balance of my time.

Chairman **Rostenkowski**. Mr. Rousselot will inquire.

Mr. **Rousselot**. Thank you, Mr. Chairman.

Thank you both for your testimony. You both emphasize the importance that FAA places on helping or determining what the safety is of air traffic control.

What new things did FAA introduce to prevent the kind of disaster that occurred in San Diego?

Mr. **Dan Glickman**. They are working on a collision avoidance system. The Administration has proposed something called TCAS, threat alert and collision avoidance system, which is a way to avoid midair collision.

Mr. **Rousselot**. What is it called?

Mr. **Dan Glickman**. TCAS, threat alert and collision avoidance system.

Mr. **Rousselot**. How is that proceeding? It has been 2 years since that crash.

Mr. **Dan Glickman**. It has been many years. As far as I can tell, it is proceeding well. FAA Administrator Helms is here. You will be able to ask him that. We have kept the pressure on him. I think he is moving ahead with it.

Mr. **Rousselot**. We get a different story from those involved in general aviation. I am not sure there has been much of a change. I don't have to convince either of you that it was a major catastrophe; yet we are being told constantly, that FAA is doing its job in safety and providing the kind of wherewithal that these taxes provide to keep it all going. But I am not sure that we understand what kind of improvement has occurred.

Mr. **Dan Glickman**. Since the San Diego crash, other than some transponder rules that have been implemented, there has been no formal rulemaking procedure that will require devices on airplanes to prevent them from crashing into each other. The issue has been researched and developed to death. You also have many aspects of the industry that do not want anything mandated on them, as you will recognize.

But I am confident that Mr. Helms, for the first time, has moved ahead with some changes that would, in fact, require some instrumentation in this area. He is here and can tell you about it.

Mr. **Goldwater**. John, the FAA and NASA and the military are all involved in improving aviation safety. The heart of our system is the air traffic control system. We want to improve that by going to the next generation computers. In addition to that, you have a lot of other things that are going on, such as crashworthiness and material studies. We want to try to come up with materials inside cabins that are nonflammable, nontoxic.

The greatest cause of accidents is the failure of the human being. We are doing, and probably should be doing more work on human factors. So it is just not one thing we are doing that goes toward improving aviation safety. We have over the past many years introduced a terminal control area concept that we have over Los Angeles and over many of our major hubs. In one respect that adds or enhances safety, but in another respect it detracts from it.

Mr. **Rousselot**. I saw the terminal control area model for the L.A. airport. How somebody understands that system, I don't know.

Mr. **Goldwater**. It gets pretty complicated.

Mr. **Rousselot**. It is extremely complicated.

Mr. **Goldwater**. One of the problems you have with that is it does help control the traffic that is inside it, but those who do not want to go into it go around it. All of a sudden you have a potential congestion problem around the outside of the terminal control area. We don't know enough about that factor, in my opinion. We ought to be doing more work on it.

This whole business of aviation safety is an industry-Government partnership. Industry has an incentive to build aircraft and to train pilots to fly safely. The FAA, I think, is equally motivated. There is a working relationship. A lot of it could be increased if we had more dollars. The dollars are in the trust fund and they are not being expended for those things.

Mr. **Rousselot**. I appreciate the testimony of both of you. I appreciate the fact that you both realize that there is a role for our Government as it relates to safety and regulation thereof. I think it is interesting that my colleague from New York is suggesting we basically turn it over to the private market. I have not heard him make that suggestion in the field of medicine, but maybe he now will.

Chairman **Rostenkowski**. Mr. Moore will inquire.

Mr. **Moore**. No questions.

Chairman **Rostenkowski**. Thank you gentlemen, for joining us. Our next panel consists of David Glickman, Deputy Assistant Secretary of the Treasury for Tax Policy; Mr. Darrell M. Trent, Deputy Secretary of Transportation, accompanied by Mr. J. Lynn Helms, Administrator, Federal Aviation Administration.

Welcome, gentlemen, to the Committee on Ways and Means. I am sure that you have been very attentive to what has been discussed here this morning. We look forward to your observations, your recommendations and an exchange of ideas on these aviation-related policy issues.

Mr. Glickman, you may proceed.

STATEMENT OF HON. DAVID G. GLICKMAN, DEPUTY ASSISTANT SECRETARY (TAX POLICY), DEPARTMENT OF THE TREASURY

Mr. **David Glickman**. Mr. Chairman and members of the committee, I am pleased to appear today to discuss with you the administration's air user tax proposals. These proposals are an integral part of the President's overall program for economic recovery.

One of the objectives of the program is to shift the costs of Federal Government services that are clearly allocable to certain users to such users. In his September 24 speech on the economic program, the President specifically emphasized the importance of this "user pays" concept. This concept has particular relevance for the Nation's airways system.

Currently, a large portion of the costs incurred by the Federal Government in operating the Nation's airways system is being paid for through general revenues. The purpose of the administration proposals is to shift this burden from the general taxpayer to the commercial and general aviation sectors that directly benefit from these services. At a time when both Congress and the administration are concerned with providing tax relief for the general taxpayer, these proposals deserve serious consideration.

Before discussing the administration proposals, I shall briefly review the prior law relating to aviation taxes, as well as the current situation.

BACKGROUND: TAXES PRIOR TO 1970

Prior to 1970, the taxes imposed on aviation users consisted of a 5 percent passenger ticket tax on domestic flights, a 4-cents-per-gallon gasoline tax, with a 2-cents-per-gallon refund or credit, on both general and commercial aviation and a tax of 5 cents per pound on aircraft tires and 10 cents per pound on tubes.

THE AIRPORT AND AIRWAY REVENUE ACT OF 1970

In 1970, Congress adopted major changes to the system of aviation user taxes. These changes were prompted by the dramatic past and projected growth in the use of the airport and airways system of the United States. To meet this growth in demand for more air transportation to move passengers and goods more rapidly, it was expected that the Federal Government's expenditures for the 1970–79 decade for expansion and development of an advanced air transportation system, with high safety standards, would double.

To meet these costs, the administration proposed a system of new and increased user taxes to pay an increasing portion of the total Federal Government expenditures for the air transportation system. Without such new and increased user taxes, the general taxpayer would have been required to finance most of the cost of the system through general fund appropriations. The Congress agreed that the users of the Federal aviation system should properly pay for a greater share of the cost and that the goal should be for the civilian portion of the system eventually to become self-sustaining. To meet this goal, Congress enacted the Airport and Airway Revenue Act of 1970—the 1970 act.

Under the 1970 act, the 5-percent passenger ticket tax was increased to 8 percent, and a new $3-per-head departure tax on passenger tickets for international flights and a new 5-percent waybill tax on air freight were added to the code. In addition, the 1970 act provided for a substantial increase in the fuel tax on general aviation by increasing the gasoline tax from 4 cents per gallon to 7 cents per gallon and adding a 7-cents-per-gallon tax on aviation jet fuel. These increases were intended to insure that general aviation paid a larger share of aviation system costs than in prior years. The 1970 act also provided for a new aircraft use tax of $25 plus 2 cents per pound on nonturbine aircraft and 3.5 cents per pound on turbine aircraft.

Finally, the act provided for the establishment of an airport and airway trust fund, similar to the highway trust fund. All revenues from the new system of airway user taxes were to be deposited in the fund for the anticipated expansion, improvement, and maintenance of the air transportation system.

Thus, the 1970 act laid the groundwork for what was expected eventually to become a self-sustaining system of air user taxes.

THE 1971 AND 1976 LEGISLATION

Unfortunately, as a result of concern about the administration of the airport grant system during the first year after the 1970 act, legislation was enacted in 1971 to prevent the trust fund from being used to pay the costs of operating and maintaining the airway system, as opposed to capital costs. In legislation enacted in 1976, some changes were made to permit the use of trust fund moneys to pay certain costs associated with equipment and its maintenance, but most costs of airway operation cannot, to this date, be paid out of the trust Fund.

THE EXPERIENCE OF 1976–81

The result of the 1971 amendment was twofold. With the exclusion of a major cost element, the trust fund accumulated a large surplus. At the end of the 1980 fiscal year, the uncommitted trust fund balance stood at $3.8 billion. At the same time, much of the civilian portion of airway costs has had to be financed by taxpayers in general, rather than from the trust fund as was originally intended. Thus, during the period from 1976 to 1980, a total of $8.8 billion has been spent from general revenues for airway system costs.

In addition, the taxes imposed under the 1970 act expired, after a 3-month extension, on October 1, 1980. On that date, the airway taxes reverted to the pre-1970 levels and no additional revenues have subsequently gone into the trust fund.

THE ADMINISTRATION PROPOSAL

The administration has proposed to reinstate, with certain modifications, the system of air user taxes established under the 1970 act and to put the system back to a full user charge system as was originally intended in 1970.

Under the administration proposal, the 5-percent domestic passenger ticket tax would be increased to 6.5 percent—lower than the eight percent imposed in 1970—and the $3 per head international departure tax and the five percent waybill tax would be reinstated. In addition, the proposal provides for a fuel tax of 12 cents per gallon on gasoline used for general aviation and 20 cents per gallon on other fuel used in general aviation. These latter taxes would be subject to scheduled increases through 1985.

S. 1272

By contrast, S. 1272, another bill of interest to this committee, would provide for only a 3-percent passenger ticket tax, a $1-per-head international departure tax, a 2-percent waybill tax, and an 8.5-cents-a-gallon tax on fuel used by general aviation. These proposed tax levels would not allow for the full recovery of costs incurred for users of the airway system and would require the general taxpayer to pay a large share of the system's costs.

CONCLUSION

In conclusion, both sound tax policy and sound fiscal policy require that the civilian portion of the airport and airway system be operated on a user charge basis. This was the original goal of the system in 1970, and it is the goal of the current proposals of this administration. These proposals are an important part of the President's overall tax and budget programs for the economic recovery of the country and we urge that this committee give them serious consideration.

Chairman **Rostenkowski**. Mr. Trent, you may proceed.

STATEMENT OF HON. DARRELL M. TRENT, DEPUTY SECRETARY, DEPARTMENT OF TRANSPORTATION

Mr. **Trent**. Mr. Chairman and members of the committee, I welcome the opportunity to appear before you today to discuss the administration's position regarding the aviation user taxes needed to finance our Nation's airport and airway system.

Our aviation user tax proposal, which seeks greater funding of system costs from system users, is an integral part of the President's total program for economic recovery. President Reagan specifically highlighted the importance of the "user-pays" concept in his September 24 speech to the Nation on his economic program.

The President emphasized the need for increased cost recovery from aviation system users and asked you, the Congress, to approve his legislative proposals to authorize such increased cost recovery.

For the first time in many years we have an opportunity to change the direction of the country, to curtail runaway Federal Government spending, eliminate Government subsidies, and balance the Federal budget. Appropriate user fees are crucial to this change of direction.

Our cost recovery policy is simple and straightforward. We believe that Federal transportation outlays should be financed wherever possible through charges levied directly on the user or immediate beneficiary of the particular Federal transportation service or facility, rather than through general taxes levied on the population as a whole. Insofar as it is practicable, charges on specific users should reflect the full Federal cost of the service or facility. Each individual user should pay according to the extent and character of his use. Exceptions to this policy should be made only on the basis of overriding national considerations and should be of as short duration as possible.

The quality and quantity of transportation services that the economy provides should be determined insofar as possible by the interplay of normal market forces. If the major modes of transportation are to compete in the marketplace on the basis of whatever cost and service advantages they possess, the marketplace distortions caused by existing Federal transportation subsidies must be eliminated.

In its essence, the administration's transportation user charge policy is based on the twin considerations of equity and efficiency.

EQUITY

Those who obtain valuable services from the Government or use Government-funded facilities should pay for them; those who do not should not be asked to share the cost with those who do.

EFFICIENCY

For the market to operate as an efficient allocator of resources, the prices of goods and services must reflect full costs. When Government relieves one mode of transportation of the costs of required services or facilities, the price of that mode's services can be artificially lowered, diverting traffic from a more efficient mode and encouraging pressure for the creation of uneconomic investment in the subsidized mode.

This overview is the basic concept we have used in formulating the proposal before the administration. Administrator Helms will detail proposals for aviation taxes, and we will be pleased to answer your questions.

[The prepared statement follows:]

STATEMENT OF DARRELL M. TRENT, DEPUTY SECRETARY OF TRANSPORTATION

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Equity.—Those who obtain valuable services from the government or use government funded facilities should pay for them; those who do not should not be asked to share the cost with those who do.

Efficiency.—For the market to operate as an efficient allocator of resources, the prices of goods and services must reflect full costs. When government relieves one mode of transportation of the costs of required services or facilities, the price of that mode's services can be artificially lowered, diverting traffic from a more efficient mode and encouraging pressure for the creation of uneconomic investment in the subsidized mode.

I am well aware that many critics of the Administration's position will agree with these principles but feel that they are not being applied consistently and evenhandedly to all modes. Indeed, some have argued that their particular mode is being singled out for especially harsh treatment while other modes continue to be subsidized. This is not the case.

Several modes which use Federally-financed facilities already use the cost-recovery principle, and, in fact, it's a time-honored tradition. In other modes, the Administraton has proposed instituting user fees or expanding their coverage, as is the case with aviation user fees. Finally, we have made a number of proposals which would reduce or eliminate existing Federal transportation subsidies. Overall, our proposal is calculated to bring equity to Federal involvement in the transportation area.

I would like to make two final points before yielding to Administrator Helms. The first is that we recognize that there will be some dislocation and disruptions from the shift to user financing. There will also be some changes in the competitive relationships between modes and between carriers. You don't make sweeping changes without disadvantaging some people. But far more people will be helped than hurt; the economy will get a substantial boost; and the free market system which functions best on principles of equity and full cost internalization will be strengthened.

Second, a number of people have raised questions regarding Federal assistance to modes other than theirs, such as aid to the railroads in the form of 19th-century land grants, emergency loans, grade crossing programs, and so forth. I submit that this is not a particularly helpful way to approach user financing. At one time or another, every mode has received substantial public support when the public policy objectives of the day, for whatever reason, were to promote and encourage the growth of that mode. The opening of the West, the economic development of depressed regions, emergency transitional assistance to maintain vital transportation services—whatever the wisdom of the specific decision—these were all legitimate public policy objectives that didn't and shouldn't have had anything to do with the principle of full cost recovery over the long run for all modes. Today, we are no longer in a developmental or promotional posture with respect to any mode.

Let me emphasize that the Administration's policy and proposals do not ask for retroactive recovery of past outlays or subsidies for completed projects. In setting cost recovery policies across all modes, the only useful and fair thing to do is to look ahead and establish consistent and equitable policies for the future, and not try to sort out who got what from whom in the past and whether the result met some idealized standard of intermodal equity. In summary, the simplest, most straightforward, evenhanded policy will serve us all best in the long run: full cost recovery from all the competing transportation modes; no permanent subsidy for any of them, and the quickest possible shift to this status as can be achieved.

I therefore urge you to carry out the President's request and enact the aviation user tax proposals contained in the Administration bill, H.R. 2930. It sets forth a balanced and equitable package of taxes that would provide necessary relief to the general taxpayer by requiring aviation system users to pay the costs associated with operation, maintenance, and development of the airport and airway system.

I would now like to have Administrator Helms detail our proposal for aviation user taxes, and then we would both be pleased to respond to any questions you may have.

STATEMENT OF HON. J. LYNN HELMS, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY HARVEY SAFEER, DIRECTOR, AVIATION POLICY AND PLANS

Mr. HELMS. Mr. Chairman, I will briefly summarize my statement:

First, the program to be addressed by the joint efforts of the administration and the Congress must respond to both the present needs of our system and those required to support another 100,000 aircraft that will be in the air before the end of the decade. Therefore, we have a common interest: the recognition of a need to support a growing number of aircraft.

Second, the committees affected and the administration agree that modernization of the system is absolutely required. The President, the Secretary, the Deputy Secretary, and I have publicly acknowledged this and our intention to move forward with it.

Third, we are jointly tasked—that is, the Congress and the administration—to equalize the tax bill on the citizenry. All users should pay their fair share, and this in recognition that there is some public good.

Fourth and finally, I have started to work closely with Mr. Mineta's and Mr. Glickman's subcommittees in outlining the new FAA airways system.

This does not necessarily mean that past funding has been bad; it does say, however, a new look at recognizing new technology and a new system approach is being instituted. I expect to have the first outline ready for review by the end of next month.

I am firmly committed to the modernization and improvement of the national airways system. I join my colleagues in welcoming your questions, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF J. LYNN HELMS, FEDERAL AVIATION ADMINISTRATOR

Mr. Chairman and Members of the Committee, I appreciate the opportunity to accompany Deputy Secretary Trent today to discuss the Administration's proposal for aviation user taxes.

The tax structure now in place to finance the needs of our airport and airway system fails to adequately meet the future needs of the system and imposes an inordinate burden on the general taxpayer. In fact, current user tax revenues now recover only about 37 percent of FAA's costs, leaving a substantial share of those costs to be borne by the general taxpayer. This is contrary to a primary goal of the Administration, general tax relief. We do not believe that the general taxpayer should have to bear such a disproportionate share of the cost of operating and maintaining the nation's airports and airways.

Our proposal seeks to correct that inequity by phasing in taxes which will ensure that aviation system users eventually pay their full share of the costs incurred by the FAA in equipping, operating, and maintaining the airport and airway system. The costs allocable to military and other government use of the system are about 15 percent of FAA's total costs. Therefore, civil aviation is responsible for the remaining 85 percent of the FAA's total costs. Thus, the 37 percent of FAA's total costs currently collected from system users through aviation taxes amounts to 42 percent, in the aggregate, of the costs incurred by the FAA which are allocable to civil aviation. The users of commercial air service are paying amounts equivalent to about 60 percent of the costs incurred by the FAA on their behalf, while the comparable figure for general aviation is in the range of 5 to 15 percent.

We plan to attain our goal of full cost recovery from system users through a more balanced and equitable set of taxes. Our proposal includes a 6.5 percent ticket tax, a $3 per passenger international departure tax, a 5 percent cargo waybill tax, a tube and tire tax, and a noncommercial aviation fuel tax. The remainder of FAA's costs, the 15 percent attributable to military and other government use of the system, would be financed from the General Fund.

To increase cost recovery from general aviation users, we are proposing a dual tax structure for noncommercial aviation gasoline and jet fuel with the tax level starting at 12 cents and 20 cents per gallon, respectively, and gradually reaching 36 cents per gallon for aviation gasoline and 65 cents per gallon for jet fuel in fiscal year 1986. We estimate that the revenue from these tax levels will cover about 60 percent of the FAA costs allocable to general aviation by 1986. General aviation users would still be paying a much smaller share of the FAA costs attributable to them than would the users of commercial air service. However, not only would the difference be decreased, but our proposal would also result in more equitable treatment of all system users.

It is an established fact that general aviation places significant demands on the system. Recent events requiring the FAA to restrict flights to accommodate reduced system capacity have demonstrated this. One example of the costs which these demands produce is the $250 million required to equip and operate our network of flight service stations in fiscal year 1981. The total amount of revenues collected from general aviation, including the commuters, was only about $43 million for fiscal year 1981. Thus G.A. revenues did not even account for one-fifth of the cost of the flight service stations, which are only one element of the services provided to general aviation users.

The demands of general aviation on the national airspace system will increase in the future, as the growth rate of general aviation continues to exceed substantially the growth rates of all other system users. Furthermore, general aviation planes are becoming increasingly sophisticated and are making continually greater use of the facilities purchased with Trust Fund revenues. In particular, they are increasing usage of instrument facilities and flight plan services. As general aviation increases its utilization of our system, its contribution to the financing of the system should be increased, and we strongly support tax changes to accomplish that end. We must eliminate government subsidy of small segments of the population that are not in clear need of such subsidies if we are to achieve necessary reductions in general tax rates. Our collective responsibility is to all of the taxpayers not just the users of aviation facilities.

Of course, implementing the concept of users paying for system costs requires more than just collecting their fair share of costs from those users. The FAA must also be given the ability to spend those user-generated revenues on the activities needed to provide services to those users, that is, the operation and maintenance of the system. Therefore, our authorizing legislation provides that those expenses incurred in operating and maintaining a safe and efficient aviation system which are attributable to non-government users be covered by the Trust Fund. The companion revenue measures we propose would facilitate this. Capital needs and operating and maintenance expenses would be fully met by revenues derived from users and, as necessary to cover the government's use of the system, from general revenues. Given the history of this issue, let me assure you that I am dedicated to a strong FAA capital equipment program. Both Secretary Lewis and I have testified before Congress on the need for a major revitalization of the air traffic control system. This is a top priority for us.

I want to emphasize that our proposal to increase Trust Fund financing of O&M is not a proposal to increase program levels. In fact, I am firmly committed to holding down unnecessary expenditures by the FAA. But the significant point is that necessary FAA operating costs will be incurred whether they are funded from the Trust Fund or from the General Fund. Moreover, O&M contributes directly to system safety since a navigational aid or facility must be operated and maintained if it is to do any good. The source of funding is not an issue when safety of passengers and integrity of the system is at stake.

The revenues generated by our proposed user taxes, in addition to the uncommitted balance in the Trust Fund, will be sufficient to meet the FAA's capital program needs as well as its O&M costs. The Trust Fund balance estimated over the next five years will be available for necessary improvements and modernization of the air traffic control system. Lower user taxes would simply not generate adequate revenues to support the program needs identified in the Administration's proposed authorizing legislation.

In closing, I want to reiterate what I believe to be the critical elements of the Administration's aviation user tax proposals. We believe that our proposals are justified in terms of meeting the needs of the aviation system. We have to assure that adequate revenues are available to shape our system to meet current and future traffic demands. I am absolutely committed to an upgrading and modernization or our air traffic control system. Air safety and our national economy, together with future commerce and employment, are highly dependent on it.

Equally important, these user tax proposals are an essential element of the President's overall program for economic recovery. We must seek greater equity in our aviation user taxes and relieve the unnecessary burdens that have been imposed on the general taxpayers. As the President stated, the users and beneficiaries of a service should bear the major costs of providing that service. The Administration's aviation user tax proposal is directed towards these vital objectives, and I urge you to respond positively to the President's plea to enact this legislation as an important part of this economic recovery plan.

Mr. Chairman, that completes my prepared statement. My associates and I will be pleased to respond to questions you and members of the Committee may have.

Chairman ROSTENKOWSKI. Thank you, gentlemen.

This is the first exposure that we have had to the administration's user charge recommendations and aviation tax provisions. Although I have not taken a position on these proposals, I am certain that there are members of the committee who will oppose the administration's proposal.

I want it understood that there will have to be a strong effort made by the administration to work with members of this committee and convince them to support these recommendations. Under the new user fee proposals to which the President referred in his September 24 speech is one described as "licensing, inspection, and navigation services to commercial airlines and private pilots."

I would appreciate a more detailed description of this proposal. Please tell us how it relates to matters that this committee is considering today.

I also would like to know with whether the revenues from your proposal would be deposited into the airport and airway trust fund? Where exactly would the revenues be directed?

Mr. TRENT. Mr. Chairman, it is the intent of our proposal to recognize these services which are provided by the FAA. The sources of revenue that would fund these services are those that are designated in the bill that we propose, the gasoline user fee that would be chargeable to general aviation, different levels for jet fuel and aviation gasoline also the 6.5 percent ticket tax, as well as the waybill tax, and the other specific measures.

It is not our intention, nor do we plan, to bring back to the committee a proposal for charging for these particular services. The general thrust of the program we have presented relates to total cost recovery for the operations of the FAA that can be attributed to the carriers and to general aviation. A part of our proposal, as is set forth, divides the revenue that we would hope to obtain from these individual sources as follows: 57 percent from the carriers and 27 percent from general aviation, from the tax for the fuel.

Chairman ROSTENKOWSKI. As outlined by Mr. Mineta, the revenues from these proposals are already assumed in the budget with an October 1, 1981, effective date. Is that true?

Mr. TRENT. Yes; that is correct.

Chairman ROSTENKOWSKI. Certainly, this legislation will not be enacted for some time. As Mr. Gibbons pointed out, there will have to be a conference, particularly with respect to the issue of defederalization. I think that this committee will act as expeditiously as possible. However, I think that you gentlemen who must administer the programs should be aware of the problems that I see with respect to the timing of the legislative process.

Mr. Gibbons will inquire.

Mr. GIBBONS. At this point I don't want to go into a whole lot of detail about Washington National Airport. I think you know my views on it.

I want to say that I want to have a thorough understanding with you, Mr. Helms, and with the administration, as to what they plan to do with that national asset out there.

I want to say, very clearly for the record, I am disturbed by the way past administrations have administered that airport. The terminal facilities are a disgrace. I don't think anybody has used decent major planning on what to do about the future out there.

Let me ask you about your rationalization for these fuel taxes. You go to 12 cents per gallon for gasoline and go up to 20 cents for general aviation. You start off and you go to 12 and 20 cents and go to 38 cents and 65 cents. Give me the rationale for that on jet fuel and on gasoline.

Mr. HELMS. I presume your question is for the difference between them?

Mr. GIBBONS. The difference between them and why do they escalate so fast?

Mr. HELMS. If we took the total charges that could be directly related to general aviation and allocated it, it would be a traumatic impact on general aviation. For example, if we took the higher value of the 5 to 15 percent of the total cost, and assumed that the general aviation was going to pay 15 percent, we would then find that the fuel charges would go up over 50 cents a gallon in the first year. That industry just can't support that. It would break the industry.

So we then have to find a way to introduce them to the user charge, but do so in such a way that it does two things: It ultimately results in their assuming their fair share and gets around the problem that any businessman does not like, which is unfair or unplanned surprises on money.

The intent was to phase it in at a recognzied lower value than their fair share, but to spread it out over five years, so that they could do their financial planning, recognizing at the end of the 5-year period they would come close to achieving their fair share.

The reason for the difference between a tax on aviation gas and jet fuel is that most of the turbine powered use the facilities of the

FAA more, whereas the gasoline-powered aircraft to a great extent merely fly from airport to airport and in many cases do not even file flight plans.

Hence, it was proper to establish a separate fuel cost for those people who use more services. That is the reason for the distinction between the two grades.

In summary, those cost figures are less than their fair share but we thought it was far, far too much of an impact to try to move traumatically in 1 year to recover them all.

Mr. GIBBONS. What would this total tax picture generate in revenues and how would you expect to spend these revenues?

Mr. HELMS. The FAA projection shows only a slight decrease in revenue from that originally presented in the spring, despite the downturn in the economy and reduction in flying. This is because the reduction in air passengers was not as significant as had been anticipated. There are a number of strategies. I will use just three to make a point:

Over a 5-year period we could have a very, very high tax bill, accumulate all the funds necessary for modernization and then hold that in the bank, if you will, for 4 or 5 years and let it generate interest and have enough to pay for the modernization equipment.

A second strategy would be that we essentially take no taxes and we use up the trust fund completely for 4 years or 5 and then when the large-scale expenditures come onstream starting in late 1985 and 1986, have a rather dramatic increase, which at that time would be 60 cents a gallon in 1 year.

Both of those appear to be extremes. The first case takes too much cash out of the national need. It is the wrong way to go to the public and citizenry and ask them to pay in advance for a system they don't have. The latter, also as a businessman, worries me. It says we launch on a program and we do so with the intent of using up that source of funds which allows us to take care of the emergencies, and we do so with the knowledge that in 4 or 5 years there will be a huge increase in taxes in 1 year.

If I split those two, I would say I would adopt a taxing policy that will allow me slowly to start to build that up; that is, we build it up at a rate slightly higher than the use each year and project it in the outyears for the 1984 time period when we will have finalized a 4-year R. & D. effort and have very large R. & D. expenditures but nowhere near as large as the 1985–86 hardware expenditures.

I would have $2.6 billion to kick off the purchase of these large procurements that will be necessary. That is the strategy behind the plan.

Mr. GIBBONS. I may have missed it. Perhaps this is illustrated in some chart form in some of the testimony.

Do we have any charts? I missed them, if we do.

Mr. HELMS. No, Mr. Gibbons, we did not do so. I was trying to outline in response to your question that there are many strategies as to how we would accumulate funds and how we would spend them. We chose to take a middle-of-the-road approach, so that we do have enough, so that in the first year and second year funding for the large capital requirements would be available.

Mr. GIBBONS. I would like to see some charts as to what you plan to do. I do not intend to support a tax unless I know how it is going to be spent, particularly if we put it in a trust fund.

Mr. HELMS. I have had a major study underway since February. This—indicating documents—is the sixth iteration of the entire national airway system modernization program for the FAA. I am not trying to impress you, but the information you are requesting is in generation. I don't mean to imply that the last study which he has in his hand, done by FAA last October, was not adequate or not accurate, but I have been able to identify that there were interfaces between subsystems that were not sufficiently defined and would have cost hundreds of millions of dollars.

I have gone back and examined every system. We talk about the computer. That is the popular phrase. I assure you, the computer will not make half of the total. Based on the decisions we make on other subsystems, that computer will be dramatically reduced in cost and complexity. I expect to have it defined by the end of next month in accordance with the resolution that Mr. Glickman indicated was going to the House. I expect to have a rather firm funding projection by June of next year, also in accordance with the House resolution.

It is my hope to get it to you before then.

Mr. GIBBONS. What are those dates?

Mr. HELMS. I understand Mr. Glickman to say he was asking for a system definition by the end of this year and a funding projection and a subsystem definition by June 15 of next year. I believe I heard him say that.

Mr. GIBBONS. You are not talking about this Glickman but the other Glickman?

Mr. HELMS. I am talking about Dan Glickman, the chairman of the Subcommittee on Transportation, Aviation, and Materials.

Mr. GIBBONS. Thank you.

Chairman ROSTENKOWSKI. Mr. Duncan will inquire.

Mr. DUNCAN. Mr. Helms, it is of concern to me that perhaps you won't be needing as much equipment and technology because of the fact that in the last few years, especially since deregulation, we have had a great reduction in airline services into smaller cities. When I say smaller cities, I mean under 500,000 people, and that the commercial airlines are using the present situation with air controllers as an excuse to reduce airline services into those communities. They are using what votes they have or what votes are permitted for use in the larger central metropolitan centers, while we who live in smaller cities are suffering as a result of decisions made by the FAA.

I have seen services in my community in Knoxville deteriorate, and, on down to Chattanooga, three to four airlines have moved out of that city. I am sure that is true throughout the country. Chattanooga people have to go to Atlanta. We can get to Boston, Mass., but I never knew anyone in my community who ever wanted to go to Boston. We go to New York. There are a few people who like to go there.

I would like your views on that, because I am not for our people paying any more taxes, when we just continue to see our services deteriorate, except for little puddlejumpers.

Mr. HELMS. The FAA has no authority nor involvement in the selection of route structure. That is CAB. We do not have any authority to either direct carriers to start service to a locale or to take it out. That is outside of our authority under any aspect of the Airline Deregulation Act. However, we have found that as the large trunk carriers move their larger aircraft out, commuter carriers then start to fill in.

For example, we have over 200 commuter carriers in operation and they are growing. We encourage those to the maximum. Based on that, our equipment requirements for airports will not go down; they will go up, because we intend to go ahead and modernize the equipment that will be required specifically for those commuter carriers.

We have moved out now and I have approved already a new program for the microwave landing system. This will replace the ILS system with a much more flexible system for approach in bad weather and it will reduce the cost.

Additionally, we have authorized over $70 million to go ahead with the automated flight service station program which was approved in the last fiscal year.

So we are moving out in the modernization program. It is my intention and my hope and my firm belief that we will respond to the needs of those communities.

Mr. DUNCAN. We have been hearing that for the last few years, but they continue to increase their long-haul flights and we continue suffering. A great number of flights were removed since the air controllers went on strike. They happen to be from the smaller cities, not the long-haul flights or to the large cities.

What are your views on allegations by the air controllers union that we have a lot of antiquated equipment and outdated equipment serving our airports now?

Mr. HELMS. I think the record as regards safety of the U.S. national airways system speaks for itself. It is the safest one in the world by far. That does not mean to imply in any way that it can't be better. It does not mean in any way that we can't make it better.

So the program we have identified and I fully expect to implement in modernizing and updating the equipment will make it better yet, both as regards capacity and reliability.

I think we have to be a little careful about taking statements too much on the surface. For example, we hear routinely in the paper, or we read about it, that there was a computer failure at X center. Over 80 percent of those are not computer failures; they are failures of software; the machinery continued to work on through.

As air travelers, we don't care whether it is hardware or software—it failed. Can we cure that failure by a cheaper system and new computer? That does affect us as taxpayers. There is no question in my mind we can improve the equipment further.

Mr. DUNCAN. Thank you.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Ford will inquire.

Mr. FORD. The administration has recommended reducing the passenger ticket tax to 6.5 percent and keeping the cargo tax at 5 percent. What I would like to know is the administration's reasons for reducing the passenger ticket tax without reducing the cargo tax? In other words, you drop it from 8 percent down to 6.5. That is 1.5 percent. You are keeping the air freight tax at 5 percent.

I was wondering about the ratio between the 8 and 5, reducing it to 6.5, 1.5 points, and not reducing the cargo tax.

Mr. TRENT. Mr. Ford, in putting together the administration's proposal, we first of all had to look at the change that had taken place on October 1 of last year. That is when the 8-percent ticket tax dropped to 5 percent.

We are working with that as a basis and projecting from that our evaluation of the use of the system between commercial carriers and general aviation. The breakdown was 58 percent for the carriers and 27 percent for general aviation.

In order to attain full recovery, 100-percent recovery, of their use of the system, which is 85 percent of the total system, we found after running a scenario at 6 percent and one at 7 percent and one at 8 percent, that a 6.5-percent ticket tax would equate to moving to 100-percent recovery for the 4-year period from 1982 through 1985.

So, it was a matter of adjustments for equity that led us to those specific numbers.

Mr. FORD. I know that the present rate is 5 percent for the passenger ticket tax. Right now there is no tax for cargo. In 1980 the rate was 8 percent and now 5 percent. The administration has proposed 6.5; they did not change the 5 percent?

Mr. TRENT. The return from the 5-percent waybill tax actually equates to $70 million for the 3 quarters in fiscal year 1982, beginning January 1, 1982. It is a very small percentage of the total. When you look at the ticket tax at 6.5 percent you are talking more in the range of $1 billion a year, so the waybill tax is a very small percentage of the total recovery that is projected under this plan.

Mr. FORD. You did look at the 3 point difference between the passenger tax and the cargo tax?

Mr. TRENT. Yes; we looked at the whole issue, and as I pointed out, the waybill tax, each percentage point of the waybill tax would bring in about $14 million.

Mr. FORD. At what rate was the cargo tax?

Mr. TRENT. The waybill tax would be the cargo tax.

Mr. FORD. At what percentage?

Mr. TRENT. One percent of the cargo tax would be $14 million for three-quarters of a year, so we are talking about 5 percent, for a return in three-quarters of 1982 of $70 million.

Mr. FORD. I have no further questions.

Mr. JENKINS. Mr. Glickman, I think I follow the rationale of the administration in pursuing user fees, but don't you think, really, that a 900-percent increase in aviation fuel taxes over a 4-year period of time is a rather ambitious recommendation? Would you anticipate that the Congress would go along with a 900-percent increase in that tax?

Mr. DAVID GLICKMAN. Mr. Jenkins, I guess I would have to say that that is an aggressive type of approach, but looking at the economy and looking at how concerned we are right now with the deficit potential, I think we all have to be looking at these kinds of approaches. I think the feeling of the administration is that this is one of the areas where the Government has really been footing the bill, which should correctly belong to another segment of the private sector.

As Mr. Helms has described, we are trying to move in that direction, phasing it in over a period of years. Thus, if you look at where we are trying to go and what we are trying to accomplish, we don't think in this economy it is an unreasonable approach, no.

Mr. **Jenkins**. You don't think it would be construed as trying to balance the budget on the backs of the taxpayers?

Mr. **David Glickman**. I don't see that, no, and I don't see how that contention can be made with user taxes, if in fact, as I think we have tried to do with the approach that is being taken, the approach is to charge only the amount to the users that really can be directly attributable to their use of the system.

Mr. **Jenkins**. I understand you intend to pursue this in other areas?

Mr. **David Glickman**. Yes, sir, we do.

Mr. **Jenkins**. Rapid transit—do you intend to go with an excise tax or rapid transit?

Mr. **David Glickman**. Mr. Jenkins, I can't speak to that one. In the factsheet that came out at the time the President gave his speech on September 24, there were three areas that were mentioned. One was the air user's tax; another one was the inland waterway user's tax; and the third one was the Coast Guard. As to how much farther we are going to progress from that, I can't speak to right now.

Mr. **Jenkins**. You can't rule out rapid transit?

Mr. **David Glickman**. I am sorry, sir——

Mr. **Jenkins**. You cannot rule out the possibility of rapid transit being paid for by the users of those systems?

Mr. **David Glickman**. Mr. Jenkins, I can't rule it in or out; I don't know what the position is.

Mr. **Jenkins**. Another thing that could be included would be irrigation projects. They are used by certain people indirectly for the benefit of a lot of people, but directly for the benefit of a few. You wouldn't anticipate we would go that far?

Mr. **David Glickman**. Well, again, I just don't know the answer to that.

Mr. **Jenkins**. On your waterways recommendations, would that include pleasure boats that use the Corps of Engineers lakes or TVA lakes and that type of thing?

Mr. **David Glickman**. Mr. Jenkins, I think that perhaps the best thing I can do in something like that is to get you some information that would be more definitive. If we are going to look at what was stated, we are talking about dredging and construction and maintenance of rivers, channels, locks, dams, and ports. Undoubtedly, taking those into consideration much the same way as we have looked at the items which the Federal Government is paying on behalf of the commercial and general aviation, there will be some allocation made of those types of expenses with respect to the inland waterways.

Now, I do not, again, have the facts and figures about how that has been broken down, but it is my understanding that this position has been taken by the administration and I am sure that it is something about which we can get some additional information for you.

Mr. **Jenkins**. I didn't know whether that was included in the budget or not. Are we being asked for a boat tax for every bass fisherman in the country? How far do we go in the user tax, is what I am trying to determine.

But at this point you are unable to give me a definitive answer?

Mr. **David Glickman**. That is right. I think it is fair to say that the administration's posture would be that the various segments ought to be paying their own way. I think that is an overall position, and how far we go, to go back to the items mentioned in the factsheets themselves, I just don't know.

Mr. **Jenkins**. Mr. Chairman, I will wait until we get those specifics. Thank you.

[The following was subsequently received:]

SUPPLEMENTARY STATEMENT BY DAVID G. GLICKMAN

Further Response to Mr. Jenkin's Questions:

(1) *Rapid Transit.* The Administration is proposing to reduce Federal aid for mass transit, thus requiring mass transit to rely more on state and local aid and on fares for financing.

(2) *Irrigation Projects.* The Cabinet Council on Energy and Natural Resources has proposed that all water project costs on future projects be fully recovered with interest. Water marketing policies covering existing projects are under review.

(3) *Inland Waterway Recommendations and Pleasure Boats.* the Administration's proposals on user charges for inland waterways would not apply to recreational boats. However, user fees for Coast Guard services would apply to commercial and recreational vessels.

Mr. **Frenzel**. I want to thank the witnesses for their testimony, and I would like to ask Mr. Helms, I guess, or possibly Mr. Trent, whether the $3 international departure tax that you are recommending is comparable to similar taxes charged by our neighbors in Canada today, Mexico, Europe, and Japan?

Mr. **Trent**. I would be glad to submit for the record a comparison. I don't have as a part of the material available the individual charges in the different countries.

Mr. **Frenzel**. I would like to have that for the record. $3 seems a very minimal amount of money. It probably made a lot of sense in 1970. It seems like it probably costs more than that to collect it today.

[The information requested had not been received at the time of publication.]

Mr. **Frenzel**. I would like to ask Mr. Glickman, how much does that $3 raise? If you don't have it, could you provide it? I would like that.

Mr. **Helms**. The summary that I have shows that for each dollar in international departure, it is $16 million for the three-quarters in fiscal year 1982. The $3 would be three times that, or $48 million.

Mr. **Frenzel**. Thank you very much.

I also would like to follow that up by asking you how you collect the ticket tax and the waybill tax from the people who, I assume, collect it for you free. What are the time requirements for payment to the Treasury after the physical collection of that tax from whoever pays it the first time?

Mr. **David Glickman**. When the international traveler's ticket is issued, he also pays the international departure tax at that time. The procedure for collection of air transportation taxes is that taxes collected by the airline over a semimonthly period must be paid over to Treasury approximately 30 days after the end of this period.

Mr. **Frenzel**. A 30-day payment schedule and therefore the average payment is 15 days more or less?

Mr. **David Glickman**. I think, in several, it would be longer than that. I think we are talking about a cash flow of 6 weeks.

Mr. **Frenzel**. I would like to ask Mr. Glickman—the Treasury's favorite trick is to try to accelerate collection of taxes, which this committee usually tries to resist. Do you have any similar urges about this tax?

Mr. **David Glickman**. No, sir, we don't.

Mr. **Frenzel**. That is good news. Thank you very much.

Mr. Chairman, I would like to ask about the testimony of Mr. Helms and Mr. Trent, in which you allege that general aviation is paying a tiny percentage of its costs. As I told other witnesses, my constituents challenge the proprotion of the cost, they challenge some of the wonderful services that you are offering, which they think are perhaps not appropriate to their needs, and not required for their needs, and sometimes they are a bunch of damned foolishness.

The Treasury has already proved in its user charge a promotion for Inland Waterways that it does not know the difference between transportation and pleasure boats, and soil erosion and esthetics, and flood control and environmental costs.

Are you doing the same thing in your costs, and what can you tell this committee about those figures which appear in your testimony but are not backed up by any kind of tables or studies, at least that we have seen?

Mr. **Helms**. Let me start out initially on the basis of the services that they don't need. That is the one that I hear most often, and the one example that is invariably presented to me is the control tower at some smaller community airport that is required because there is one, at most two, scheduled air carriers a day that land there, and yet that is an element of cost which the general aviation flier doesn't want to bear. He has a good point. More and more of those have been closed.

The other aspect of it is that there are approximately 17,000 instrument flight plans a day by scheduled air carriers, out of 50,000 instrument flight plans filed, which says that about 35,000 of them are being filed by general aviation people. So, it indicates that they are getting services when they want them—and that is the key thing—that are available.

Mr. **Trent**. Let me add that the 27 percent that was established as the percentage of use for general aviation was done on the basis of an individual evaluation. We did have some difficulty in establishing that as a firm figure, and there have been a number of studies done which have given different numbers, but we are comfortable with the range.

The important point is that we are not trying to move toward 100 percent recovery of this 27 percent the first year. The schedule of fees that we have offered would actually only tax 26 percent of the use of general aviation the first year; and as it is phased in, the maximum amount we are proposing by 1986 under our projections is about 60 percent.

Mr. **Frenzel**. The problem is that the figures you are comfortable with, and the figures you are now quoting, as such a great bargain for general aviation, are, of course, disputed by those people who are going to have to pay the freight for them.

I think you have to give us something a little better than a couple of pages and a percentage point. If you have these vast studies, we don't ask for them for the record, but perhaps our staff could borrow them for a while, if you could freight them up here for us, so that we can see how you made these percentages come out.

I keep hearing—well, in the first place, the assessment of user fees is a good thing because it will keep us from getting all of these facilities that we don't need, such as the airport built for the town that doesn't exist yet. We have a lot of those horror stories, I guess. But we really don't know what your basis is, and the more information you can provide for us, the better we will like it.

We will have, I am sure, witnesses who come up here and say, "We don't need any of that junk and we can get along with this, that, or the other thing." Maybe you need different categories of service. So I hope you can respond for the record at least in response to the information that I requested earlier.

Chairman **Rostenkowski**. Mr. Pease will inquire.

Mr. **Pease**. Thank you very much, Mr. Chairman. I have a series of questions for Mr. Helms.

Sir, a few of my constitutents have brought this to my attention. What is the classification for FAA employees relaying weather information to pilots but who have no radar responsibility?

Mr. **Helms**. We have a series of levels, if you will, of employees. Generally speaking, these are GS-9 to GS-11 people.

Mr. **Pease**. A couple of them brought to my attention last year their desire to be air traffic controllers and apparently they were told that they could not transfer laterally to become air traffic controllers.

Since it appears that the FAA is committed to hiring large numbers of new employees with no previous FAA experience, I wonder if it doesn't make sense to allow or to change your regulations regarding these people who have FAA experience and who would like to transfer?

Mr. **Helms**. Now that I see the thrust of your original question I should note that, the senior one of that group could work up into GS-13. The reason they were not allowed to transfer is that there is a special act passed by Congress that allows controllers and controllers alone to retire at age 50 after 20 years of service, which means if they were 31 they would not be able to have 20 years of service. Therefore, the flight service specialist 31, 32, and 33 could never reach his retirement under that bill and retire at 50.

What we have done is gone back and asked for a change to allow us to take a man up to 36 with the proviso they now would have to work to 56 to qualify under the 20-year retirement. I have just received approval that we can do that, and we will be moving out to do that.

This is not a final decision, but I am 80 to 90 percent confident that will be done.

Mr. **Pease**. You think you can do that without a change in the law?

Mr. **Helms**. We believe that we can, and that is the reason for the delay. If we cannot, it will be in a package of legislation that I have now drafted and will be presenting shortly.

Mr. **Pease**. I am glad to hear that.

Comparing the administration's bill with the Public Works Committee bill on the airport and airway trust fund, there is a limitation in the Public Works Committee bill that amounts appropriated can be used for no purpose other than those specified in the legislation; whereas, I believe the administration's bill could be interpreted to allow money from the airport and airway trust fund to be used to carry out any administrative expenses of the Department of Transportation.

Additionally, I think the administration bill allows block granting of funds to the States from the airport and airway trust fund.

If the administration supports the user fee system to pay for the costs of the air system, wouldn't it be more appropriate to limit appropriations of amounts from the trust fund to those purposes specified in the bill?

Mr. **Helms**. First of all, I am not aware of any intent certainly in the wording that would imply that under the administration's propoal the funds out of the trust fund would be used for any purpose which the Transportation Department might choose.

Specifically, I am under the impression that H.R. 2643 and H.R. 2930 both relate to the FAA system. However, it is true that H.R. 2643 would limit O. & M. funding from the trust fund to direct costs of flight checking, operating, and maintaining air navigation facilities whereas the administration's bill H.R. 2930 would allow other safety and regulatory activities undertaken by the FAA to be funded from the trust fund. As regards the appropriations and what we do with them, that is finally up to the Congress in any event, and they finally decide how we use it.

Mr. **Pease**. Now, let me shift to a question that is of great interest to at least some 440 of my constituents who are fired FAA controllers, and also it ties in with what we are talking about today.

Do I understand that the administration's policy is not to rehire any of the fired controllers?

Mr. **Helms**. Yes, Mr. Pease, that is it. Anyone who has been through a strike knows that no one wins, and there are only losers. I did not see that confrontation, but I have to live with it to fulfill my oath.

We have made the decision and we will not rehire any of the controllers or bring those who have been terminated back.

Mr. **Pease**. If that is the case, could you provide us with any estimates, either now or for the record, of what the costs of that policy of yours, in terms of the training costs, that you are going to train 8,000 new people at such and such an amount per person, and what the total amount will be and how it impacts on the budget?

Also, I would be interested to know what calculation you have made about the loss of revenue to the trust fund because of the reduced level of activity for airline flights.

Also, have you made any calculations about the loss to the general revenue fund, because of the slowdown in economic activity as a result of the fewer number of flights available?

Mr. **Helms**. I am not sure I can remember all of those questions, but I will try. Our detailed cost for the cost of training to get one full performance controller is about $160,000. The amount spent on one controller who successfully completes the entire training program is $103,000 for the controller's salary, training costs, and academy instruction. However, some of them do not complete it; they are not up to doing it, and that results in what we call backfill. That is for someone who went part of the way through, we wouldn't have to pay the full $103,000 and the average "backfill" cost is $57,000. Thus, to get one full performance controller we have $103,000 indirect costs and $57,000 in indirect backfill, for a total of $160,000, which I think, for your purposes is the number that you have in mind. I should note that the controller salary component—$89,000 of this total cost—reflects total time "on the job" and this includes an increasing amount of time spent performing productive nontraining tasks as the developmental controller progresses up to full performance level.

As regards the comparison between the total cost of the strike and retraining the people, including the overtime and the travel and the movement of the people and all of the additional material, according to our best projection we expect controller progresses up to full performance level. We will save about $200 million in savings we didn't seek.

The distinction is that there is about a little over $400 million a year in controllers' salaries that we are not now paying. All of the data we now have shows that we will end up with about $250 million less expenditures had we not had the strike, but that does not include the economic impact.

I am not qualified to give you that. I don't know what that is.

Mr. **Pease**. Are you people able to give us the impact on the trust fund itself? I should think you would be able to calculate the number of flights prior to the strike and the number of flights since, and the loss of revenue to the trust fund.

Mr. **Helms**. There has been essentially no impact on the trust fund due to the strike, and the reason is that most passengers that want to travel are traveling; they are having delays and they don't have the number of options for flights that they had before, but essentially everyone who wants to travel is.

In the case of general aviation, there has been some constraint and this has been periodic at three particular centers, the New York, Chicago, and Cleveland centers. Otherwise, there have been essentially no bounds placed on them and this is dependent upon weather and location.

We don't see a decrease that is noticeable in the contribution to the trust fund, but there is a decrease in those funds taken out because we don't have the number of controllers on active duty.

So, in summary, we don't see a major impact on the trust fund revenues.

Mr. TRENT. Since October of last year there have been no funds going into the trust fund with the exception of interest and at this particular time we are looking at recent expenditure in 1981 of $450 million for airport aid in addition to previously appropriated amounts for F. & E. and R. & D.

Mr. PEASE. I hope that will change and money will start flowing again in the Fund. Thank you.

Mr. BAILEY. Thank you, Mr. Chairman.

Mr. Glickman and Mr. Trent, I guess basically I would like to follow up on what Mr. Jenkins was talking about earlier.

First of all, have you folks done any kind of a cost/benefit analysis on the impact of your recommendations on user fees? I say that because I think some of these programs and some of these functions, I think, are uniquely governmental in many ways. I also wonder, in other words, how much benefit they generate?

The other side of my question would concern something that you may not be familiar with, but hopefully you can get the answers for me, and that is on water resources' management policy, and the relationship to the user's fee concept. In paraphrasing annexes to the bill and Jeffersonian agrarian principles aside, some role and function of Government, I think, is necessary in this area.

The Coast Guard, your user's fee concept, if taken to its extreme, would literally devastate—and I mean devastate—the Ohio River system, closing off resource development in Pennsylvania, for example, coal, gravel, and sand resources. You literally could not afford to, given the number of blockages and the benefits derived from it, and I would like to know the spinoff. Is there any cost/benefit work on what you do to a region or what you do to an area and what you do to an airport and what you do to employment, given the impact of this user's fee policy that you have? Have you done that kind of work on it at all?

[DOT submitted the following:]

The Department of Transportation user fee legislation for aviation, port, waterway, and Coast Guard programs is based on the policy that federal transportation outlays should be funded, whenever possible, through charges levied directly on the user or immediate beneficiary of the applicable service or facility rather than through general taxes levied on the population as a whole. Individual users should pay according to the extent and character of their use. This policy is particularly appropriate for freight transportation, where users are typically profit-making, commercial companies.

This policy is rooted in the principles of equity—that those who use valuable transportation services should pay for them—and efficiency—that full payment for these services will lead to the most efficient use of our nation's resources. From an efficiency point-of-view, for the market to operate as an efficient allocator of resources, the prices of goods and services must reflect full costs. When government relieves one mode of transportation of the costs of required services or facilities, the price of that mode's services can be artificially lowered, diverting traffic from a more efficient mode and encouraging pressure for the creation of uneconomic investment in the subsidized mode. Users who are paying the full costs of goods or services will have strong incentives to insist on efficiency and economy. The economy as a whole will benefit from the resulting shift to and careful use of the least expensive and most efficient transportation method available to the user. With this in mind, cost/benefit analysis to assign the consequences of market shifts toward more efficient transportation services was not undertaken.

Mr. TRENT. The analysis that we have done relating to this particuar aspect of the program has related, first of all, to trying to fix the percentatge of use of the system as a basic starting point.

Mr. BAILEY. How do you do that?

Mr. TRENT. We do it on the basis of data that have been collected by the FAA, on the basis of data information on scheduled flights, and the Official Airline Guide.

Mr. BAILEY. Would you get that formula for me?

Mr. TRENT. I would be glad to do that. The report that was done, which fixed the percentage of 58 percent for commercial and 27 percent for general and 14 percent for Government, could be provided to you.

Mr. BAILEY. I saw the figures and I don't know how you arrived at that data, and where you differentiate between user and benefit.

Mr. TRENT. I do think the important point though is that in the phase-in that we have proposed, particularly with regard to general aviation fuel taxes, what we are expecting to recover in the early years is a very small percentage of what we estimate to be the use of the system.

When you look at the jet aircraft and jet aircraft fuel, which is treated separately there are 2 gallons of jet aircraft fuel for every gallon of gasoline that is used by general aviation. All of these airplanes are under positive control because of the nature of the airplane. You take a jet airplane being operated for one or two people, and it has the same kind of care under the FAA's requirements as does the 747.

Mr. BAILEY. Have you done any work on benefits, if you take general revenues and you are complaining about the percentage of general revenues involved, my simple question is, is it a good investment? Have you done any work on benefits derived from the use of those taxpayers' money?

Mr. TRENT. What we are hoping as a part of the thrust for user fees not only with the airport and airway trust fund but also from the waterway and other trust funds, is to draw a stronger correlation between the service being provided and the actual cost of the service.

Mr. BAILEY. I know that, but we are talking about peripheral or what you might consider tangential benefits, but you are going to do something with the user fee and you are going to shut down three dams on the Alleghany River that provide access to coal resources, gravel, sand, and every time you haul a ton by truck and you go over 30 or 40 or 50 miles, you are spending a hell of a lot more money for it.

You are also talking about private enterprise that is not going to go in there and develop this Nation's navigable rivers. We have never done it since we wrote our Constitution.

I just wonder if you have done any work on peripheral benefits on some of the economic impact you are going to have with some of these things?

Mr. TRENT. With regard to the waterway area, which you are dealing with specifically, we have gone through a series of evaluations about the charges that are to be submitted as a part of the administration's proposal, and we will have additional information that will be available before that comes up for final vote.

Mr. BAILEY. Will you get it for me, so I can study it, and I would like to learn more about your position.

Mr. TRENT. I would be glad to do that, Mr. Bailey.

Mr. BAILEY. Thank you, Mr. Chairman.

Chairman Rostenkowski. Mr. Rousselot will inquire.

Mr. Rousselot. Thank you, gentlemen, for your testimony.

I would like to follow up on Mr. Frenzel's comments. I am sure all three of you are aware that there is a distinction between benefits and services, and regulatory requirements. Mr. Helms, I think you, especially, when as an aircraft manufacturer, said a year ago, that the ultimate user of these aviation services is the citizenry and that every citizen who receives a piece of mail in the mailbox derives benefit from the national air transportation system. However, I think that some of our constitutents are now saying that what you say they derive is of little benefit to them but only a regulatory requirement, or actually a benefit to commercial aviation. Therefore, my question is whether you think there is a distinction between the benefits and services that general aviation receives, and that which is merely a regulatory benefit, or a user charge that should be attributed to regulatory activity?

Mr. Helms. I would hope it is not directly related to regulatory activity, because I don't think—I have seen records that would not indicate that we are that accurate in being able to apply a specific set of regulations.

Mr. Rousselot. Let me give you a quick example: I have seen a model for the terminal control area in Los Angeles If I was a pilot in a small aircraft trying to navigate in that system, I would be quite concerned. Those pilots don't consider that control system a benefit to them. They just try to survive with it.

Do you want to comment further on that?

Mr. Helms. Now, I better understand the thrust of your earlier comments. I thought you were referring to part 121 and that type of regulatory effort. The San Diego situation is even worse.

Mr. Rousselot. I know it is, and I decided not to bring it up.

Mr. Helms. In looking into it, I found that all of the people who were users were the ones who contributed to that. I was unable to understand that until I began to study the participation, but one of the ways that I hope we will be able to reduce this—and I am confident we will—is by the different approach we took on the collision avoidance. If you recall, the FAA has been on an extreme analog of collision avoidance, which would be based on systems on the ground, transmitting to the air, with a single black box, a large black box.

We had concern in the industry because this was a rather expensive black box. The approach we are now on recognizes that the general aviation does not need the same type of equipment as the scheduled air carrier, and it has a small box; and the air carrier has a large box, and these two boxes can talk to each other independent of the ground.

Once we have achieved that, we now are in a position to allow the pilots to start having a gross increase in the distinction of their decisionmaking process.

Therefore, I would expect to see it considered as a start to reduce. We have started to take a look at it and we have requested one, and I think withdrew the notice in Tampa, and I would expect we would be able to reduce it.

I am in favor of reducing the rates, so I think the cost associated with it would go down also.

Mr. **Rousselot**. You mentioned in your testimony that the users should be willing to carry their fair share. I think most would agree with that, but part of the problem is they don't really need or want the benefit and service that they are receiving and feel that that part is just overregulation.

Mr. **Helms**. I initiated in April of this year a national airspace review. It will be the first time, I suppose, in over a third of a century that such a thing has been done. This will be made up of 18 task groups of users throughout the entire aviation community, local operators and scheduled air carriers and military and DOD and even the Drug Enforcement Commission. These groups will take a look at all aspects of the national airways to see which ones we don't need, what is the best altitude, with an emphasis on fuel saving and efficiency of flight.

The reason we can do it now—and perhaps we should have done it before but as a businessman I know I can make no decision today that changes the past—now we do have a technology and we do have the ability now and we ought to do it. This is going to take 42 months in totality, but we will be getting periodic reports out. I have been on the road 2 to 3 days a week encouraging the very users that you are talking to participate. In Orlando last Saturday, I said:

> It is your system, your airspace, and it is not ours, the FAA; join this effort and tell us how you want to use it, and what kind of navigation equipment you want, and tell us how you want to pay for it.

So, in each of these cases, I not only do not disagree with them, I agree with them. Let us get the FAA out of things we shouldn't be doing. One thing I found with certainty, when you remove regulations from a body, that removal is permanent only when that body accepts the responsibility equal to the citizenry.

So, if our general aviation people and the rest of the aviation community want more deregulation, that is fine; but they must accept that responsibility to the citizenry. It is my hope that they will.

Mr. **Rousselot**. Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Mr. Moore will inquire.

Mr. **Moore**. Thank you.

Mr. Glickman, in your testimony, on page 3, you make the statement that a total of $8.8 billion has been spent of the general revenues on airways systems' costs from 1976 to 1980. Is that $8.8 billion the operation and maintenance of the FAA? Is that where you are getting your figures?

Mr. **David Glickman**. Would you repeat the question?

Mr. **Moore**. You make a statement, a total of $8.8 billion has been spent from general revenues on the airway system cost from 1976 to 1980. My question is, what is that expenditure? Is it the operation and maintenance expenses of the FAA, the operations of the FAA? Is that what this $8.8 billion is?

Mr. **David Glickman**. I think we should ask Mr. Pousen, from our planning group, and he can give a specific answer.

Mr. **Pousen**. It is primarily operations and maintenance, and there is a small element in there for what we call "fee," which is our regulatory research. It is primarily the O. & M.

Mr. MOORE. The next question I have is to Mr. Helms. I am somewhat confused by your testimony. You say on page 2, you come up with a figure that evidently backs up the administration's request for an increase in the taxes, claiming that 85 percent of the FAA's O. & M. costs ought to be paid by users. Mr. Mineta testified about these two reports, two studies done by the FAA, showing a range considerably less than that. That is a range of somewhere between 74 percent to 63 percent. I am wondering where you come up with 85 percent.

Mr. HELMS. I didn't interpret Mr. Mineta's testimony that way. What I interpreted his testimony to be was that out of the total of 100 percent, he agreed that 15 percent was the military and 85 percent was nonmilitary. The distinction that I understood in Mr. Mineta's testimony was between our allocation of the funds that make up the 85 percent. I interpreted his testimony to be that he was breaking up the 85 percent in a different way.

At one point he mentioned that 40 to 50 percent should be in the general fund.

Mr. MOORE. I am not talking about that now. We are on page 6 of his testimony, where he is talking about the range of these two FAA studies. He states that one says 74 percent of all FAA costs ought to be attributed to private sector users and 10 percent to military aircraft and 16 percent to general public interest costs.

By another method, he attributes 63 percent to private sector, another 10 percent to military and 27 percent to general user costs.

In your testimony you seem to eliminate the general user cost figure. You seem to be using only what the costs of the FAA attributes, I guess, to the military. I am wondering or trying to understand that.

Mr. HELMS. On page 2, on the third line, where I say, Thus the 37 percent of FAA total cost appparently collected, and that is the reciprocal of its 63 percent, and he said it one way and I said it the reverse, if I understand that.

Mr. MOORE. How can you say, therefore, that civil aviation is responsible for the remaining 85 percent of the FAA costs if you have two reports that indicate there is a general public benefit factor that exists somewhere between, according to the two reports, somewhere between 27 percent and 16 percent, not counting the military?

Mr. HELMS. The 85 percent that I referred to leaves 15 percent.

Mr. MOORE. But that 15 percent is for the military alone, isn't it?

Mr. HELMS. I am not prepared to say that that is solely military, but I am trying to relate my figures to yours, Mr. Moore.

Mr. MOORE. It says 10 percent, both reports say that 10 percent, as I understand it here, is for Government military aircraft. You add 10 percent to the 16 percent or the 27 percent for public benefit use, and there is no way you can come up with 85 percent. He is quoting your reports. You are giving me a factor of 86 percent, which happens to work out to be what the administration is asking for, and these taxes to pay. I am simply asking where you get the 85 percent.

Mr. HELMS. Let me ask Mr. Safeer, who wrote both reports and did those studies, to respond to you, to make sure we are giving you correct information.

Mr. Moore. I am inclined to think maybe you are right, that perhaps the trust fund ought to pay more for the FAA expenses, but I am not prepared to accept your figures.

Mr. Safeer. We are talking about one study. We looked at a number of different methods of allocating costs between different users of the system. Using one methodology that was based on marginal costs of system use, we did indeed come up with an allocation that says 74 percent should be allocated to the system users, roughly 10 percent to the military and 16 percent to other Government flying, through the national airports and other public uses.

We looked at another scenario where we estimated the cost if we didn't have air carriers in the system, but solely had general aviation flying; we estimated how many centers, towers, landing aids and other types of facilities we would need just to handle the general aviation system. In that case we came up with a cost allocation that essentially allocated 63 percent to the users: 50 percent to air carriers, and 13 percent to general aviation, 10 percent to the military, and then included in the remaining 27 percent, the cost of having a joint use system which could handle air carriers, general aviation, and military.

I might note that this last allocation method was basically the one that was picked up by the National Business Aircraft Association as one that they said was a good allocation; it depends upon the assumptions.

Mr. Moore. My time is running out and I would appreciate it if you would send this to me. I still don't understand how you can allocate a certain portion to the private sector, whether it is commercial airlines or private pilots, of somewhere between 73 percent and 67 percent, and, then turn around and say they ought to pay 85 percent of the cost of the FAA. I don't understand that. It doesn't follow and it doesn't add up mathematically, and I am asking you to give me that.

Mr. Helms. We will submit an analysis that analyzes the differences.

[The following was subsequently received:]

The costs of operating the Federal Aviation Administration can be allocated differently among user groups and the general public depending upon the assumptions one makes with respect to which costs are incurred in the public interest and which costs are incurred on the system user's behalf. The Department of Transportation has allocated FAA costs between the users and the general taxpayers as the basis for its aviation proposals as follows: [1]

	Percent
Air carrier	58
General aviation	27
General taxpayers	15

The Federal Aviation Administration has performed analyses which allocate costs based on different assumptions. In one case, FAA excluded from the costs allocated to users the costs of safety, environmental, medical and certain other systems costs that are set as a matter of public policy, such as airport improvements in conjunction with essential air service determinations. In this case, the cost allocation becomes:

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[1] The committee also received for its files the 1978 cost allocation studies published by DOT upon which these figures are based.

	Percent
Air carrier	50
General aviation	24
General taxpayers	26

One further scenario has been developed by the FAA in which we postulate a system designed solely for use by general aviation and ignore integration of regulating requirements into an overall system. This is the "minimum general aviation system cost" scenario which was adopted by the National Business Aircraft Association and Congressman Mineta. Under this allocation scenario, the cost allocation becomes:

	Percent
Air carrier	50
General aviation	13
General taxpayers	37

Mr. MOORE. If I could ask one last question. In looking at the analysis of the bill, H.R. 2930, which is the administration's bill for the spending of the funds from the trust fund, and looking at the balance of the trust fund now, and looking at what the receipts are estimated to be under the administration's proposed taxes, it has been computed by me and by staff, and we still wind up somewhere between $2 and $4 billion surplus in 1985.

Gentlemen, I am not going to support any tax increase that winds up with that surplus. We are trying to balance the budget by this. There is no way. If you can show me that these calculations are incorrect—we took these from the June report of the Treasury, starting with what the fund is now and what you project to spend by your own bill, and what you project to raise by your own figures, we are still coming out with a surplus of $2 to $4 billion in 1985.

Mr. TRENT. Mr. Moore, if I could submit in a general way, I would be glad to submit it for the record in more detail, but we began in 1982 with an uncommitted trust fund balance of about $2.9 billion. In the scenario that is proposed by the administration, at the end of the year we have reduced the trust fund to $1.6 billion. Then in 1983, with the continuation of the revenue and expenses that we propose to be allocated to the trust fund, it drops further, to $1.3 billion in 1984; it drops further to $1.1 billion, and then gradually starts increasing from $1.2 billion up to $1.6 billion again in 1986. The significance of these numbers is that our projection about the revitalization of the air traffic control system has built into it projections which OMB is using of $2.2 billion that would be used for the purchase of hardware and software, parts of the equipment in the new system.

We will not have until late next month the review and analysis that Administrator Helms has underway of the exact requirements of the system as we will be proposing it to Congress.

We are certain that this surplus of $1.6 billion that we are projecting in 1986 will not be adequate, but it will be an important step toward the financing of those systems that are important in the en route air traffic system.

Mr. MOORE. I don't think you have proved your case. The projections of your bill, and the projections of your revenue and what the fund is, they don't add up to what you are telling me, and I don't think that this committee is going to vote a tax just to keep that fund the same as it is now 6 years from now.

Chairman Rostenkowski. The gentleman's time has expired. Mr. Gibbons will inquire.

Mr. Gibbons. Mr. Helms, the system is no better than enforcement of your rules and regulations. Recently Pan American ran out of fuel over the Gulf of Mexico in a flight between California and Miami.

What action do you contemplate taking in that regard?

Mr. Helms. We are still studying the situation to make sure we know all the facts and to make sure it does not happen again by somebody else making the same mistakes. We have not reached a final determination on what our action will be. The crew has been suspended pending completion of the investigation. Until such time as we know all the facts, I would be hesitant to make a judgment.

Mr. Gibbons. When do you think you will know all the facts?

Mr. Helms. When a final report is prepared and submitted, and I would expect that probably within the next 2 or 3 weeks it should be pulled together. I don't think it will go past the end of November.

Mr. Gibbons. If you have a bunch of hooligans such as those servicing that airplane—the best airplane in the world won't fly unless it has fuel in it.

Second, in 6 months six people have been killed at the Gainesville Airport in two crashes—Gainesville, Fla.—both involving pilots flying into TV towers.

What do you plan to do about that?

Mr. Helms. We don't have the authority to move TV towers.

Mr. Gibbons. I understand that.

Mr. Helms. We are undertaking now an effort to increase the lighting on them and use strobe lights. We are in the process now of being sued in Alabama because we had specified that we put strobe lights on them to make sure people don't hit them. We are caught between the group that wants to protect the environment and those who want to increase safety.

That is not an adequate answer, I recognize, because you have the same objective as I do and that is to increase air safety. We have gone to a more rigid program of examining installations of TV towers to make sure they are not on airways or near approach paths or near airports.

Yes, we have our problems, too. There were people who wanted to install them. Thus far we have been able to resist new towers.

Mr. Gibbons. Have you taken a hard look at the Gainesville Airport installation? One pilot, very experienced, whom I knew, was an excellent pilot, but he couldn't fight that tower. I don't know the other pilot because the last time I read about it his body had not been identified, which was just this weekend.

Mr. Helms. As you know, we have been asked about the possibility of taking some type of action on one of the towers there. We don't have the legal authority to have anybody move the tower as such. We do have the legal authority to establish airways around it which is what we have done. Any VFR pilot can fly anywhere in the United States as long as he stays out of our control areas. There is no way we can prevent a pilot from flying as long as he is outside of our control areas.

Mr. **Gibbons**. I understand. Neither one of the pilots was using VFR. I wish you would take a look at it. It is not in my district. It seems if the same accident can happen twice within 6 months——

Mr. **Helms**. Under our alert system that tower as such would have been on the radar scope so that as the airplane flew along when it got within a specific distance he would have been alerted. I don't think he was on VFR.

Mr. **Gibbons**. I don't know what he was on, but he couldn't see the tower. Neither one of those pilots would have tangled with it if they could have, I am sure.

Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Thank you, gentlemen.

I want to suggest that the administration has some work cut out for itself.

Mr. James, Mr. Winant, Mr. Graves, and Mr. Stimpson.

Gentlemen, we will receive your testimony in the order in which I called your names.

If you will identify yourself for the record, Mr. James, you may proceed with your testimony.

STATEMENT OF GEORGE W. JAMES, SENIOR VICE PRESIDENT, ECONOMICS AND FINANCE, AIR TRANSPORT ASSOCIATION OF AMERICA; ACCOMPAINED BY JAMES T. MURPHY, ACTING ASSISTANT VICE PRESIDENT, AIRPORTS AND MATERIALS, AND WILLIAM M. HAWKINS, VICE PRESIDENT, FINANCE AND TAXATION

Mr. **James**. Thank you, Mr. Chairman.

I am George W. James, senior vice president of economics and finance of the Air Transport Association. We appreciate the opportunity to testify before you today. I am accompanied by Mr. James T. Murphy who is the acting assistant vice president for airports and materials and Mr. William M. Hawkins, vice president of finance and taxation of the Air Transport Association.

Mr. Chairman and members of the committee, on behalf of the scheduled airlines, I appreciate the opportunity to discuss the airport and airway trust fund and the taxes on airline passengers and shippers, matter of vital importance to the scheduled airlines.

In May the Committee on Public Works and Transportation reported the Airport and Airway Improvement Act of 1981—H.R. 2643—which authorizes the airport and airway trust fund expenditures for the fiscal years 1981 through 1983. The expenditure and authorization levels included in H.R. 2643 are as follows:

ADAP grant in aid—$450 million in fiscal year 1981, and $600 million in fiscal year 1982 and fiscal year 1983.

Facilities and equipment—$350 million in fiscal year 1981, $325 million in 1982, and $425 million in fiscal year 1983.

Research and development—$85 million in fiscal year 1981 and fiscal year 1982.

Operations and maintenance—$525 million in fiscal year 1981 and 50 percent of the amount appropriated for specified operations and maintenance functions in fiscal year 1982 and fiscal year 1983. We have estimated the expenditures to be $914 million in 1982 and $978 million in fiscal year 1983.

H.R. 2643 proposes to fund 100 percent of the U.S. Government capital costs of the airport and airway system through the user financed trust fund. At the same time the authorization legislation includes a significant increase in the level of user contributions to FAA's operations and maintenance expenses. Allowing for inflationary growth in fiscal year 1984 and 1985, the measure as reported would take an estimated $4.5 billion of trust fund money for O. & M. through fiscal year 1985. The issue now before this committee is what are the appropriate tax levels to fund the programs authorized under H.R. 2643, taking into consideration the present $2.8 billion surplus in the trust fund.

Mr. Chairman, the scheduled airlines believe that a revenue measure is needed that would insure that the safety requirements of the air transportation system are met; reduce the swollen surplus and bring the trust fund into better balance; and provide tax relief for airline passengers whose exorbitant overpayment of taxes during the past 10 years must not be continued.

To fund the program authorized by H.R. 2643, the scheduled airlines recommend establishment of the domestic passenger tax at 4 percent, the international departure tax at $1, and the cargo tax at 2 percent. As shown in exhibit 1, the balance in the trust fund at the end of fiscal 1985, at these tax levels, would be reduced from $3.8 billion a year ago and $2.8 billion today to a more reasonable level of about $1.3 billion. If the legislation finally agreed upon includes lower expenditure authorizations, then the taxes could also be further reduced.

If this proposal were enacted, air carrier passengers and shippers would still be paying nearly 90 percent of the income in the trust fund. Additionally, over the past fiscal year since the program lapsed, airline passengers have paid approximately $1.3 billion into the U.S. Treasury through the currently applicable 5 percent domestic passenger tax. The airlines believe that, in fairness, this amount should be credited to the airport and airway trust fund. If the taxes collected during fiscal year 1981 were included in the trust fund, at the end of fiscal year 1985 the $1.3 billion surplus identified earlier would be nearly $2.6 billion.

The administration has proposed—H.R. 2930—to increase the taxes paid on general aviation fuel to provide for a more equitable contribution to the cost of Federal airways by this segment of aviation. Moreover, the administration has proposed to establish the airline passenger ticket tax at 6.5 percent, the international departure tax at $3, and the cargo tax at 5 percent. If these tax levels are enacted along with H.R. 2643, in fiscal year 1985 the surplus in the trust fund, including the moneys paid by airline passengers to the U.S. Treasury this past fiscal year, would exceed $8 billion.

The surplus has accrued because expenditure and trust fund income, for the most part, have not been related to one another during the 10-year life of this program. The current trust fund balance, coupled with the authorizations contained in H.R.2643, warrant a reduction in the passenger tax to the 4-percent level we are proposing. There is no justification for setting tax levels higher than necessary to fund the authorized programs.

Of considerable concern to the airlines is the effective date of the new taxes. Airline tickets for taxable transportation are sold by more than 18,000 travel agents and approximately 5,000 airline ticketing locations in the United States, as well as by airlines and agents worldwide. Additionally, computers are used to calculate fares and amounts payable for such transportation. In order to implement the changed tax levels, the airlines will need notice well in advance. Therefore, it is recommended that tax rates be effective 60 days after enactment, and, in the case of passengers, apply only to tickets sold after the effective date.

In addition, the airlines have specific recommendations for technical improvements in the laws regarding the application of the taxes. These improvements, if enacted, would reduce the administrative burdens placed upon the airlines and the more than 18,000 travel agents in calculating the amount of tax to be paid by passengers on travel to and from Hawaii and Alaska and on travel to Canada. They would also eliminate the requirement to allocate the taxes of flight segments on the ticket. The specific recommendations are appended to my statement.

In summary, Mr. Chairman, the airlines recommend that tax levels for airline passengers and shippers to support the program established in H.R. 2643 should be:

A domestic passenger tax of 4 percent.

An international departure tax of $1.

A domestic cargo tax of 2 percent.

These tax levels, together with appropriate levels for general aviation, will support the authorized program while retaining a more than adequate surplus in the airport and airway trust fund. Taxes higher than these recommended levels will unnecessarily burden airline passengers and shippers and produce an excessive trust fund surplus. The airlines believe that the user taxes on airline passengers and shippers should be no higher than is necesary to fund the program.

That completes my statement, Mr. Chairman, and we are prepared to answer questions from the committee.

[Attachments to the prepared statement follows:]

EXHIBIT I

TRUST FUND PROJECTIONS—H.R. 2643

[In millions of dollars]

	Fiscal year—				
	1981	1982	1983	1984	1985
Trust fund income[1]		862.0	1,333.1	1,510.9	1,678.8
Prior year's surplus	3,803.0	2,877.9	2,224.7	1,877.9	1,562.2
Total	3,803.0	3,739.9	3,557.8	3,388.8	3,241.0
Less authorizations	(1,410.0)	(1,924.0)	(2,094.0)	(2,241.0)	(2,399.0)
Balance	2,393.0	1,815.9	1,463.8	1,147.8	842.0
Plus interest[2]	484.9	408.8	414.1	414.4	407.1
Surplus	2,877.9	2,224.7	1,877.9	1,562.2	1,249.1
Income:					
Ticket tax (4 percent)		748.2	1,169.7	1,333.2	1,485.1
Waybill tax (2 percent)		38.0	56.8	64.0	72.0

TRUST FUND PROJECTIONS—H.R. 2643—Continued

[In millions of dollars]

	Fiscal year—				
	1981	1982	1983	1984	1985
International tax ($1)		19.7	27.6	29.1	31.0
Fuel tax (8½ cents) [3]		55.3	77.9	83.5	89.6
Tires and tubes		.8	1.1	1.1	1.1
Total		862.0	1,333.1	1,510.9	1,678.8
Authorizations: [4]					
ADAP	450.0	600.0	600.0	642.0	687.0
F. & E	350.0	325.0	425.0	455.0	487.0
R. & D	85.0	85.0	91.0	98.0	105.0
O. & M	525.0	914.0	978.0	1,046.0	1,120.0
Total	1,410.0	1,924.0	2,094.0	2,241.0	2,399.0

[1] Income estimates are based on FAA projections of July 21, 1981 adjusted for tax levels shown. Trust fund income assumes taxes reauthorized Jan. 1, 1982. Tax receipts for Oct. 1, 1981 to Dec. 31, 1981, estimated to be approximately $320 million, are not reflected in trust fund income since they are currently deposited into the general fund.

[2] Interested computed at 9 percent on unexpended balances. Interest for fiscal year 1981 obtained from FAA estimates of July 21, 1981.

[3] Fuel tax for general aviation is included for illustrative purposes at 8½ cents per gallon, the amount contained in Ways and Means Committee amendment to H.R. 6721 (96th Congress).

[4] Authorizations are as shown in H.R. 2643 except: ADAP and F. & E. have been increased 7 percent annually for fiscal years 1984 and 1985. R. & D. increased at 7 percent per annum for fiscal years 1983, 1984, and 1985. O. & M. has been increased 7 percent annually for fiscal years 1983, 1984, and 1985.

Problems and Recommended Solutions in Assessment and Collection of Taxes on Air Transportation

I. Application of the Tax to Transportation Between the Continental United States and Hawaii or Alaska and Between Alaska and Hawaii

Under Section 4261 and Regulation 49.4261-3(c), a trip between points in the United States and Hawaii/Alaska must be divided into taxable and nontaxable portions. In the Regulation, two methods are provided as follows: (a) prorate based upon "mileage of the taxable portion" to total mileage, or (b) basis of the applicable local fare for transportation. This Regulation was issued as TD 6430 which reflected the law prior to the enactment of the Airport and Airway Revenue Act of 1970.

The airlines, with the encouragement of the CAB and the Congress, have published dozens of joint fares from a large number of cities in the United States, both large and small. Since airline transportation is sold through over 18,000 travel agent outlets and a large number of airline ticket offices, the calculations required by the present law and regulations are complex and time-consuming to administer and have become extremely burdensome.

Recommended Solution.—A new provision be added to Section 4261 which would apply a standard tax rate to all travel between the continental United States and Alaska or Hawaii and between Alaska and Hawaii. The provision requiring the trip to be divided should not be reenacted. Since a substantial portion of these trips are flown outside the continental United States, a lower rate of tax than that applied to mainland travel is recommended.

II. The 225-mile Border Zone in Defining Taxable Transportation—Section 4262

Transportation sold in the United States and performed solely within the 225-mile zone in Canada or between U.S. points and Canadian points in the 225-mile zone is treated as domestic transportation subject to the 5-percent tax. This results in the collection of a U.S. airport and airway system "user charge" when no or limited service is performed. It has also invited retaliation and the Canadian government is presently taxing transportation involving Canadian airports without regard to where the ticket is sold. Thus, a ticket sold in New York for roundtrip transportation between New York and Montreal bears a 9-percent tax since, under the U.S. law, a ticket purchased in the United States for transportation solely between these two airports is taxed at 5 percent as though both were located in the United States. The Canadian transportation tax also applies at the rate of 4 percent.

Recommended Solution.—The concept of the 225-mile border zone should be eliminated by the repeal of Section 4262 and transportation to both Canada and Mexico should be treated as international, the same as transportation to all other countries in the world. Additionally, the Administration should commence negotiation with the Canadian government to reduce its taxes on U.S. citizens traveling into and out of Canada.

III. Requirement to Allocate Total Tax Paid by Segment of Transportation—Section 7275(a)(2)

When the Airport and Airway Revenue Act of 1970 was passed, Section 7275 was enacted to provide that the ticket should not reflect a breakdown between taxes and transportation charges if all of the transportation were taxable. Subsequently, a portion of this provision was deleted, but there still is a requirement in Section 7275(a)(2) that "if the ticket shows amount paid with respect to any segment of such transportation" it shall show the total of the amount paid for transportation and tax "with respect to such segments as well as with respect to the sum of the segments." Inasmuch as this requires that the fare construction ladder in the upper left-hand corner of the ticket reflect taxes on a segment-by-segment basis, it requires showing superfluous tax information of no meaning to the passenger, the airline, or the Treasury.

Recommended Solution.—Repeal Section 7275(a)(2).

IV. The "6 Hour Rule" for Uninterrupted International Air Transportation

The term "uninterrupted international air transportation" describes a trip by air beginning in one country and ending in another country. This trip may require several intermediate stops including one or more flight connections on different airlines. For example, a trip from Denver to Hong Kong may require one flight from Denver to Honolulu with an intermediate stop in San Francisco, a second flight on a different airline from Honolulu to Tokyo, and a third flight from Tokyo to Hong Kong. Another example would be a journey which begins in London and ends in Kansas City with flights from London to New York, New York to Chicago, and Chicago to Kansas City.

Under the proposed law, the $1.00 international departure charge would apply to the first example unless the interval between flights at San Francisco or Honolulu exceeded six hours, in which case the 4-percent passenger tax would also apply. In the second example the 4 percent tax would not apply regardless of the length of the interval or the number of stops.

These two examples point up the administrative problem of dealing with the interval between flights. The "6 hour" concept dates back to the early days of the passenger tax when the international departure point was limited to a few coastal cities, New York, Miami, Seattle, for example, and it was necessary to board the international flight at one of them.

Now international flights also originate at a great many interior cities, such as Chicago, Denver, Dallas and Kansas City. Therefore, today's passenger has a choice of cities from which to arrange his departure to a foreign destination. In addition, he will usually have a choice of airlines providing the service he desires as well as a choice of departure cities. This has resulted in a situation where the "6 hour" interval has little significance from the passenger viewpoint, but causes a significant administrative problem for the travel agent or airline selling the ticket. The passenger's itinerary must be analyzed to ascertain whether a stopover is scheduled. If one is scheduled, whether it is due to a change in flights or a transfer between airlines or both, if the stopover exceeds 6 hours the 4-percent tax must now be collected.

Recommended Solution.—Eliminate the arbitrary "6 hour" interval from the present law. This will treat all international passengers the same whether they start their journey from a point within or outside of the United States. A passenger who purchases transportation beginning in the United States and ending outside will pay only the $1.00 international departure charge.

Chairman **Rostenkowski**. Mr. Winant, you may proceed.

STATEMENT OF JOHN H. WINANT, PRESIDENT, NATIONAL BUSINESS AIRCRAFT ASSOCIATION, INC.

Mr. **Winant**. Thank you, Mr. Chairman.

It is a pleasure to be here this morning and to speak for the National Business Aircraft Association. NBAA's membership consists of more than 2,500 American businesses which operate aircraft of all sorts: Turbo jets, propeller driven small airplanes and helicopters, to satisfy the day-to-day transportaton demands which active, productive corporations generate.

We have long recognized and supported the need for a national airport and airways development system, for a trust fund to support such a system, and for partial payment by the users of the system. We are deeply concerned over the fact that there has been no successor legislation to the 1970 airport airways bill. We support, fully support, the reinstitution of taxes which expired last year and which have left the jet fuel tax in a total state of limbo now for a period of 12 months.

In the aviation community there has been growing strong dissatisfaction with the disparity between trust fund surpluses and unmet, urgent needs for airport and airway system improvements. Successive administrations have seemed much more concerned with using trust fund revenues to pay for day-to-day costs of FAA than they have been with meeting system facility and airport capital investment needs.

Successive administrations also have been intensely disposed toward increasing general aviation's user taxes. The Carter administration urged establishment of a 6-percent excise tax on all new general aviation aircraft; a 6-percent excise tax on all new avionics equipment, and a 10-percent-per-gallon tax on general aviation fuels. The Congress saw precious little wisdom in those proposals.

The current administration has sent legislative recommendations to Capitol Hill which would result in drastically increased user tax levels. For aviation gasoline, the proposals would levy a tax of 12 cents a gallon in fiscal year 1982, rising to 36 cents a gallon in 1986. For jet fuel, the tax would be 20 cents a gallon in fiscal year 1982 and it would increase to 65 cents a gallon in 1986.

These tax proposals are coupled to trust funded airport development, facilities and equipment, and system research and development spending programs which are dramatically lower than those contained in either of the original House or Senate bills.

Ironically, for general aviation the program would initiate increases in taxes which would rise in the magnitude of 900 percent over the next several years. Coupled to the tax proposals for aviation are several parallel programs which deal with the users of other national transportation systems, notably those systems which are operated by or funded by the Federal Government.

A review of the various administration plans for transportation user taxes or fees and for shift of system costs to the direct users indicates that aviation is being dealt with unfairly.

Aviation users would be expected to pay for the overwhelming proportion of all costs—capital, operating and maintenance—while users of other systems would be expected to do far less, and in some cases next to nothing.

The National Business Aircraft Association believes the process of assessing a fair tax on noncommercial aircraft—general aviation—operators must take several elements into account:

Congress should determine the appropriate portion of aviation system costs to be assigned to the "public benefit" and paid from general revenues. No administration, including the current one, has been able to make such a determination in an even-handed manner which takes all transportation systems into account. The Congress is the appropriate body to make the determination on a reasonably lasting basis.

Taxes should have a relationship to the expenses authorized by the Congress in the airport-airways bills now being enacted by the two Houses. Taxes should be sufficient to support a determined share of authorized spending programs, but should not be used to build large unspent surplus in the aviation trust fund.

A tax on fuel, stated in cents per gallon, is an acceptable means of fairly sharing system costs.

A single tax rate should apply to aviation gasoline and jet fuel. The argument advanced that jet powered aircraft operator should pay a higher rate is specious. The argument claims the jet aircraft use more of the system and should be more heavily taxed. They would be more heavily taxed by a single rate, since they use more gallons of fuel and would pay a much higher share of system costs whether measured in hours or miles. A higher rate of tax would result in a double penalty.

A fair tax on noncommercial aircraft—general aviation—is 8.5 cents per gallon, the amount set by the House Ways and Means Committee in 1980 but never brought to the floor of the House.

Now, taking all of the foregoing into account—the history of aviation taxes, the transportation policies of the new administration, its specific programs, and the presence of large public benefit derived singularly from the aviation system, such process is just and fair to all.

To quote the Honorable Howard Cannon:

> The overriding issues for reauthorizing the Airport and Airway Trust Fund are to bring that fund into balance, meet the system safety needs, and to provide tax levels which account for the overtaxation these users have endured in the past.

We cannot state the case more eloquently than he.

[The prepared statement follows:]

STATEMENT OF JOHN H. WINANT, PRESIDENT, NATIONAL BUSINESS AIRCRAFT ASSOCIATION, INC.

Mr. Chairman and gentlemen, my name is John Winant and I am the President of the National Business Aircraft Association.

The National Business Aircraft Association (NBAA) represents business aviation in the United States. Business aviation comprises nearly 40 percent of all general aviation activity. In the United States, approximately fifty thousand aircraft are dedicated to business pursuits, providing on-call air transportation to all of our nation's airports, and linking many communities which enjoy little or no air carrier service with the rest of the nation. NBAA's membership consists of companies which operate certificated aircraft of all sorts—turbojets, propeller driven small airplanes and helicopters, to satisfy the day-to-day transportation demands which active, productive corporations generate.

Without our national business aircraft fleet, many of our nation's smaller communities would be out of the mainstream of American economic life, essentially cut off from the flow of management and enterprises essential to maintaining our highly productive national economy. NBAA represents the aviation related interests of persons and corporations using aircraft to further their business objectives.

In 1969 spokesmen for the National Business Aircraft Association endorsed user taxes in the form of a cents-per-gallon tax on all fuels consumed by all civil users of the civil airspace system, and recommended that the funds derived from that tax be applied to improvements in the airport/airway system. At that time, the growth in public demand for air transportation had far outstripped the ability of the Department of Transportation to plan for or apply the state-of-the-art procedures and technology of that day.

What evolved more than ten years ago was the Airport and Airway Revenue Act 970, which segregated the taxes for commercial and non-commercial aviation set the levels to be assessed. The tax for non-commercial aircraft operators was t seven cents per gallon, three cents per gallon higher than the federal taxes on otor gasoline used in non-commerical autos and trucks.

For more than a decade there has been general agreement in the aviation community that the directly identifiable users—the airline passengers, the shippers of goods by air, the owners and operators of aircraft—should all assume shares of bearing the costs of the system which is provided by the Federal government through authority granted by the legislative branch.

The debate in recent years has, then, not concerned who should pay, but has shifted to the question of how much should be paid by the various identified users, and how much should properly be paid by the general public, which can fairly be considered an indirect yet very substantial beneficiary of the aviation system.

Last year, that argument, joined with newer issues of deregulation and defederalization, brought the legislative process to a halt. Paralysis set in for aviation legislation as the 96th Congress found insufficient time to resolve the issues and the Airport and Airways Development Act of 1970, and the taxes to support its programs, lapsed. All revenues collected from aviation users during the past fiscal year 1981, have been diverted from the Aviation Trust Fund to general revenue (in the case of taxes on transportation of persons by air) or the Highway Trust Fund (in the case of aviation gasoline taxes). Outlays for necessary programs authorized and appropriated by stop-gap measures have been paid with trust fund revenue which had accumulated over the past ten years. We urge that this committee prepare legislation to recoup those revenues by redirecting fiscal year 1981 receipts to the aviation trust fund.

All of the revenues generated by aviation user taxes from 1970 until last year were credited to the Airport and Airway Trust Fund, and a portion of the monies so credited have been used over the years for airport development (ADAP) grants which require a relatively modest local contribution as a "matching" incentive; some funds have been used to purchase new airways facilities and equipment (F & E) and to provide for basic pertinent research; since 1976, some funds have been used to support FAA maintenance and operations, (M & O) in particular those related to keeping navigational facilities fine-tuned.

More than was actually used was available to use, but because of attitudes in the office of Management and Budget throughout the 1970's, authorization to use trust fund monies for most Congressionally intended purposes have been blunted. The fund now carries a surplus of several billions of dollars.

In the aviation community there has been growing strong dissatisfaction with the disparity between trust fund surpluses and unmet, urgent needs for airport and airway system improvements. Successive Administrations have seemed much more concerned with using trust fund revenues to pay for day-to-day costs of FAA than they have been with meeting system facility and airport capital investment needs.

Successive Administrations also have been intensely disposed toward increasing general aviation's user taxes. The Carter Administration urged establishment of a 6 per cent excise tax on all new general aviation aircraft; a 6 per cent excise on all new avionics equipment; and a 10 per cent per gallon tax on general aviation fuels. The Congress saw precious little wisdom in those proposals.

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These tax proposals are coupled to trust funded airport development, facilities and equipment, and system research and development spending programs which are dramatically lower than those contained in either of the original House or Senate bills.

Ironically for general aviation, the program would initiate increases in taxes which would rise in the magnitude of 900 per cent over the next several years. Coupled to the tax proposals for aviation are several parallel programs which deal with the users of other national transportation systems, notably those systems which are operated by or funded by the Federal government.

A review of the various Administration plans for transportation user taxes or fees and for shift of system costs to the direct users indicates that aviation is being dealt with unfairly.

Aviation users would be expected to pay for the overwhelming proportion of all costs—capital, operating and maintenance—while users of other systems would be expected to do far less, and in some cases next to nothing.

The National Business Aircraft Association believes the process of assessing a fair tax on non-commercial aircraft (general aviation) operators must take several elements into account:

Congress should determine the appropriate portion of aviation system costs to be assigned to the "public benefit" and paid from general revenues. No Administration, including the current one, has been able to make such a determination in an even-handed manner which takes all transportation systems into account. The Congress is the appropriate body to make the determination on a reasonably lasting basis.

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A single tax rate should apply to aviation gasoline and jet fuel. The argument advanced that jet powered aircraft operators should pay a higher rate is specious. The argument claims jet aircraft use more the system and should be more heavily taxed. They would be more heavily taxed by a single rate, since they use more gallons of fuel and would pay a much higher share of system costs whether measured in hours or miles. A higher rate of tax would result in a double penalty.

A fair tax on non-commercial aircraft (general aviation) is 8.5 cents per gallon, the amount set by the House Ways and Means Committee in 1980 but never brought to the floor of the house.

Taking all of the foregoing into account—the history of aviation taxes, the transportation policies of the new Administration, its specific programs, and the presence of a large public benefit derived singularly from the aviation system, such a process is just and fair to all.

To quote the Honorable Howard Cannon: "The overriding issues for reauthorizing the airport and airway trust fund are to bring that fund into balance, meet the system safety needs, and to provide tax levels which account for the overtaxation these users have endured in the past. . ." We cannot state the case more eloquently then he.

Chairman ROSTENKOWSKI. Mr. Graves, you may proceed.

STATEMENT OF W. LAWRENCE GRAVES, VICE PRESIDENT, AIRCRAFT OWNERS & PILOTS ASSOCIATION

Mr. GRAVES. Thank you, Mr. Chairman.

I want to stress for the record that we have heard many spending scenarios today but there is only one before this committee and that is the reported ADAP bill from the House Public Works Committee, and to fund that bill no tax is needed. Naturally, the authorizing committee members and the FAA people want to have as much as possible in the trust fund for the various plans that they have in mind. No expenditures can be made from that trust fund unless there is an authorization by the Congress, and you have before you only a 2-year authorization.

We come before you willing to express support for funding for S. 508 because we believe it will closely resemble the final product that the Congress will agree to—if there is a final product.

Mr. Helms in testifying wanted to have the best of all possible worlds. In responding to Congressman Moore's questioning, he used the administration's revenue proposal and the administration's spending proposal. That can't happen. Both the House and Senate Aviation Subcommittees have rejected the administration spending proposal and that is why if you adopt his revenue proposal you have a $8 billion surplus.

The taxes that we talk about are really taxes. I find myself saying user fees all the time but it is not true. They are not charges for the use of the system and they are not based on the use of the system. They are excise taxes and they are set arbitrarily. None of the charges is tied to any use of the system. We feel that the FAA's expenditures are too high. If we are asked to pay for them we think they should be reduced very substantially.

I don't want to be the one to tell Mr. Gibbons this but there is $30 million in the FAA budget for connecting the Dulles access road to Interstate 66. We don't think that there is any category of aviation users who should pay for that expenditure.

We asked the Appropriations Committee to reject it and they have not. The Appropriations Committee was told that the FAA was going to save $200 million because of the air traffic control situation, so the appropriation level was reduced $100 million. Who is supposed to pay the extra $100 million? Twenty-one ILS systems will be installed in airports around the country in fiscal year 1982. All the airports already have an instrument landing system. We think that is an incorrect expenditure. Why should we be required to pay for that?

Mr. Helms mentioned the towers closed during the strike. The towers for the most part that were closed were at some of the busiest airports in the country. No problem.

The FAA's job is to regulate in the public interest. Mr. Rangel's probing of Congressman Goldwater got him to the point that he said that the reason the FAA is there is to keep two airplanes from colliding over New York City. It is for the public interest that FAA undertakes its regulatory activities, not to provide a service to pilots.

Finally, the conclusion I have reached sitting in the audience today is that this is a time of transition in aviation. Nobody knows exactly what is going to be required.

Mr. Helms talked about both ground based system and air based systems of air traffic control. You can't really have both. You can't have an instrument in your airplane telling you to turn left and an air traffic controller telling you to turn right.

I hope the committee will reject the administration's position and adopt something very similar to S. 1272.

Thank you.

[The prepared statement follows:]

STATEMENT OF W. LAWRENCE GRAVES, VICE PRESIDENT, AIRCRAFT OWNERS & PILOTS ASSOCIATION

Mr. Chairman, the Aircraft Owners and Pilots Association is an association with more than a quarter of a million pilot members who use general aviation aircraft for business and personal purposes. All our members will be affected directly by the decision the Committee makes on the taxes we must pay.

Your Committee faces a unique and perhaps unprecedented legislative situation. You are being asked to develop an excise tax system to fund authorizing legislation for which the money is already available. Any decision you make to require taxes to be paid into the Aviation Trust Fund will merely supply an additional surplus of money to that account and will do nothing to enhance aviation safety or system capacity.

H.R. 2643, which is the spending portion of the Airport and Airway program, can be funded entirely with money already in the Aviation Trust Fund. We find ourselves coming before you today to acquiesce to a tax increase that isn't even needed. And, we must submit to it in conjunction with an authorization bill we find highly objectionable and strongly oppose.

There must be a distinction between benefits or services that are sought from the government and regulatory requirements that are imposed at the government's behest. Virtually all of the FAA's activities are regulatory in nature for the protection of the public. But the Office of Management and Budget and the Department of Transportation are either unwilling or unable to recognize this fact.

AOPA has worked to limit unnecessary and burdensome regulatory requirements. Sometimes we win and sometimes we lose. But now, in addition to being legally forced to comply with often objectionable regulations, pilots are being asked to pay for the regulations to which they are subject.

The administrative and regulatory activities of the FAA ought to be funded by the general taxpayer. If these activities are determined not to be in the public interest and not worthy of general taxpayer support, then Federal involvement in aviation should be terminated and these activities left to the private sector in a free-market environment.

As current FAA Administrator J. Lynn Helms said in his testimony to this Committee last year, while serving as chief executive officer of an aircraft manufacturing concern, "the ultimate user of these [aviation] services is the citizenry and every citizen that receives a piece of mail in his mailbox derives benefit from the national air transportation system."

Mr. Helms was right on the money. The goal of the FAA has been and remains the protection of the general public.

Furthermore, we believe the FAA overstates the extent to which general aviation represents a part of its activities and "services." During the recent job action by air traffic controllers, general aviation was immediately shut out of the system in some areas of the country. For example, aircraft having a gross weight of less that 12,500 pounds were simply not permitted to operate under instrument flight rules.

In a hearing on October 6 before the House Post Office and Civil Service Committee, FAA Administrator Helms indicated that one option he was considering was the prohibition of all general aviation instrument operations during morning and evening peak hours in regions covered by certain air traffic control centers. While he later dropped this option, this kind of blatant discrimination is totally unacceptable.

The air traffic control system was designed for and implemented to the specifications of commercial transport and high-speed military aircraft. Nothing we have seen since the beginning of the strike has weakened that conviction on our part. General aviation has been the last one in and the first one out of the air traffic control system. In addition, we have excessive regulation and control for the convenience and economic benefit of the airlines.

We are willing to agree that, for the first time in many years, one part of the FAA, the air traffic control system, is actually understaffed. We only regret that it took so long to demonstrate to the public and the Congress what we have been saying about FAA staffing for years. Given the fact that the Administration admits that it had thousands more controllers than it actually needed, is it any wonder that your constituents who fly don't want to pay for the FAA either with "user fees" or excise taxes.

We hope the controller problem will provide the impetus to redo the air traffic system in a way that will make it less expensive, more flexible and more responsive to growth. An air traffic monitoring system combined with a restructuring of various airspace configurations could do a better job for aviation safety at a much lower cost.

The Administration has gone to great lengths to have these excise taxes renamed and thought of as "user fees." the Administration's proposal is strictly a tax plan. Its proposals are for excise taxes—not fees for the use of the facilities and services.

We support S. 1272 which has been introduced in the Senate by Senators Cannon and Kassebaum and cosponsored by Senators Baucus, Chiles, Exon, Goldwater, Inouye, and Riegle. It offers rational tax levels and is tied closely to the expenditure levels in the Senate airport bill, S. 508. We both hope and expect that the final version of the program will more closely resemble S. 508 than the bill reported by the House Public Works Committee.

Our endorsement of the 8.5 cent tax rate embodied in S. 1272 is fair and reasonable. It was approved last year by this Committee for the period through 1985—the same period covered by S. 1272. The S. 1272 revenue proposal would more than fund any possible spending scenario even if money is appropriated at 100 percent of authorized levels—which is highly unlikely.

On the other hand, the Administration's recommendation of confiscatory tax levels is money in the bank at the Office of Management and Budget. The Administration has nothing to lose, other than credibility in the eyes of the aviation community, by suggesting unreasonable rates since any tax rate higher than 8.5 cents will add even more to the Trust Fund surplus and serve the sole purpose of slightly offsetting some of the Federal deficit.

It is clear to us that the Administration is not going to seek additional sources of "user fee" revenue in other areas. For example, we understand raising the Federal motor fuel tax from 4 to 5 cents would net about $2.5 billion for the needy Highway Trust Fund, but yet the Administration has not proposed as little as a 1 cent increase in this tax. Instead, it has asked for up to 65 cents on aviation fuel.

We have asked the House Transportation Appropriations Subcommittee to cut more than half a billion dollars from the FAA's budget request this year. We have submitted a copy of that statement to each of you showing how the FAA could eliminate or reduce much of its public relations activities and consulting contracts and other nonessential activities without any harm to its mission. Naturally, this is the last thing the FAA bureaucracy wants to do and this bureaucracy has for years attempted to impose taxes, both legislatively and through administrative fiat, rather than reduce many unessential and often counter-productive activities.

The history of the Aviation Trust Fund is pathetic to say the least and its future looks equally bleak. It was originally conceived wih the idea of improving airports and airways throughout the nation. The legislative history of the Acts makes clear that the primary objective was capital development and that any allowance for covering any operational costs was conditional upon first meeting the capital investment requirements and the existence of any surplus of money after that had been done. Any hope for capital investment from the Trust Fund is now all but completely gone.

We strongly oppose H.R. 2643 which you are being asked to fund. The Public Works Committee claims to have reported an Airport and Airway Development Act when it wrote, in fact, an FAA operations payment act. If you're looking for airport safety improvements, don't look for them in H.R. 2643. The majority of the money will go for administrative costs and less than half of the small portion that is allocated for airports will be spent on the basis of need.

Considering the President's most recent budget revision, we could reasonably expect enactment of the House ADAP bill to result in three times as much money going for administrative costs as for airport improvement.

Even worse, the authorization bill will reverse more than forty years of Federal policy encouraging competition among airport businesses (fixed-base operators) in favor of creating monopoly business franchises on airports to the detriment of the consumer—namely, our members.

If this Committee feels it must recommend a tax package we urge you to keep the Trust Fund surplus you will be creating at the lowest possible level.

[Additional material submitted to the committee has been retained in the legislative file.]

STATEMENT OF EDWARD W. STIMPSON, PRESIDENT, GENERAL AVIATION MANUFACTURERS ASSOCIATION

Mr. Stimpson. Mr. Chairman, with your permission I will submit my statement for the record and briefly summarize it.

I was shocked this morning by the testimony of Secretary Glickman to the effect that they really did not know the impact of this unwarranted, unjust 800-plus percent increase in general aviation taxes. There is an impact out there. Our industry is suffering right now, whether it is in Wichita, Kans., Lock Haven, Pa., Lakeland, Fla., or Vero Beach, Fla., where workers have been laid off because they can't sell airplanes because of high interest rates and uncertain economic conditions.

Aircraft deliveries have stabilized at 10,000 units per year but I would remind you that 2 years ago we were delivering about 17,000 aircraft a year. This represents a decrease of about 41 percent.

The strike of the air traffic controllers is also restricting general aviation in many parts of the country. We are very concerned about recent FAA actions, though we recognize the need to control flights, it is going to have an impact on the future of our business.

Coming home last night from Wichita, which is normally a nonstop flight, we made stops in Emporia, Kans., Marion, Ill., Lexington, Ky., enroute to Washington because we could not get adequate clearances, which makes you realize there are some restrictions happening up there.

We also have an aviation trust fund balance that you are well aware of, over $3 billion, which is yielding a considerable amount in interest per year, and we just do not in any way, nor do our people, see the need for these taxes of this magnitude with such a situation.

We regard the President's economic recovery program as a positive step for our industry in the purchase of capital equipment. However, if these taxes are enacted, a several fold increase, it will negate, more than anything else, the positive effects the committee had on the stimulation of the industry a few weeks ago.

The two-tier proposal that we have seen from the administration is based on the theory that planes using jet fuel generally place greater demands on the national air space system than do planes using aviation gasoline. While turbine aircraft generally do use the air traffic control system, this does not justify separate higher level taxation. By their very nature, jet fuel engines consume more fuel per hour and pay a higher tax. Therefore, we think that this is a discriminatory tax policy that is proposed and we would urge the committee to continue the single tier tax as has been the case for the last 10 years.

There was considerable discussion this morning about the cost allocation studies and proposals that have been proposed by DOT. These studies have never been fully accepted nor understood and incredibly they allocate no cost to the public for public benefit of the system. In short, the public benefit is denied, except for that use by the military of 14 or 15 percent.

We would be happy to work with the committee and the staff in further discussing and exploring these various studies that have been made. All of us have our own views regarding them.

Last year this committee wisely recommended an 8.5 cents-a-gallon tax on both jet fuel and aviation gasoline. We think nothing has changed except the situation has gotten worse. We would urge this committee to again take this action with a single tier 8.5 cents-a-gallon tax.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF EDWARD W. STIMPSON, PRESIDENT, GENERAL AVIATION MANUFACTURERS ASSOCIATION

I am Edward W. Stimpson, President of the General Aviation Manufacturers Association, an independent trade association representing 37 companies who manufacture general aviation aircraft, engines, avionics and components parts. I appreciate the oppportunity to testify before this Committee on aviation tax levels to support the Airport and Airway system.

Last year this Committee studied this matter in depth and reached two conclusions regarding taxes on general aviation: the fuel tax should be 8½ cents per gallon and the annual use tax should be discontinued. We strongly supported your conclusions. An analysis of the current situation should lead to the same conclusions this year. For example:

1. The general aviation industry is suffering from the effects of high interest rates and uncertain economic conditions. Aircraft deliveries have now stabilized in 1981 at a rate of approximately 10,000 per year. This new level is 41 percent less than the 17,000 aircraft delivered in 1979.
2. The strike of the air traffic controllers is restricting general aviation in many parts of the country. Recent FAA action will further limit activity.
3. The Aviation Trust Fund continues to have over a $5 billion balance, and an unobligated balance of $3 billion which is yielding over $600 million a year in interest from Treasury Certificates of Indebtedness.
4. Until October of last year, general aviation users were paying about $100 million into the Aviation Trust Fund per year. Most of this revenue during the past

year has been lost because of the failure to enact the airport/airway development and revenue legislation.

The new element the Committee must now consider is the Administration's proposed user tax schedule, an increase of up to 829 percent. It contains a two-tier fuel tax, with different tax schedules for aviation gasoline and turbine fuel. Taxes would increase from 12 and 20 cents per gallon, respectively, in 1982, to 36 and 65 cents per gallon in 1986. These are not simple user fees as claimed by the Administration. They are unwarranted and unjustified tax increases.

We regard the President's Economic Recovery Program as a positive step for our industry. However, if enacted, this eight-fold increase in taxes would negate most of the benefits of the program.

This two-tier proposal is based on the theory that "planes using jet fuel generally place greater demands on the national airspace system than do planes using aviation gasoline." While turbine aircraft generally use the air traffic control system, this does not justify a separate, higher level of taxation. By their very nature, jet fueled engines consume considerably more fuel per hour than gasoline powered engines. Therefore, based on a tax per gallon, jet operators pay considerably more and thereby compensate for whatever increased demands they place on the system to operate their airplanes. The discriminatory tax policy proposed by the Administration cannot be justified. We urge the Committee to adopt a single tax schedule for general aviation.

The level of taxation is indeed deserving of discussion, especially considering the widely disparate views of the general aviation community and the Administration. Let me reemphasize our position on fuel taxes. We have consistently professed a willingness to pay taxes that are fair and reasonable and have long supported user taxes. The Administration's proposals simply do not meet these criteria.

There have been numerous studies and debates on the question of just what is a "fair share." Unfortunately, any conclusions drawn have not received universal acceptance. The amount of fuel consumed is one simple common denominator between the airlines, general aviation and the military. We are not suggesting that the commercial airlines should pay a fuel tax, as the passenger ticket tax is a proven and convenient alternative. But the revenues generated through passenger ticket taxes should reflect a percentage of the total user tax revenues commensurate with the percentage of fuel consumption. The methodology is simple and fair.

During the period 1975–1980, the air carriers used 89.3 percent of the fuel consumed in U.S. civil aviation; general aviation used 10.7 percent. The FAA predicts the percentages will shift to 85.6 percent and 14.4 percent during the 1982-1986 period. But what is civil aviation's share? The FAA, in previous testimony before the Congress on the 1982 budget, stated it allocates costs to user as follows:

	Percent
Air carriers	58
General aviation	27
Public and military aircraft	14
Washington airports	1
Total	100

These allocations resulted from DOT studies which have never been fully understood or accepted. Incredibly, they allocate no costs to the public for the very existence and capabilities of the system. In short, the public benefit of the national airport/airway system is denied.

Even more important, the allocations do not account for the fact that the system was constructed to serve primarily the air carriers and military. Airport funds, facility placement and route orientation are dictated largely by air carrier and military needs. The general aviation industry has consistently called for the reduction of certain low priority services to reduce costs. During the recent strike, some of this has been accomplished by the forced closure of low activity facilities, thereby reducing financial requirements for system operation.

A further examination of previous Administration testimony invites serious questions. The FAA testified before the Senate Committee on Finance, Subcommittee on Taxation and Debt Management:

"In fact, current user tax revenues now recover only 36.5 percent of FAA costs, leaving a substantial share of FAA costs to be borne by the general taxpayer."

In 1980, tax revenues paid into the Aviation Trust Fund were $2.3 billion. FAA expenditures from the Trust Fund authorized by the Congress were $1.2 billion. This is how the Trust Fund has accumulated a balance of over $5 billion as of July 1, 1981, and an uncommitted balance of $3 billion. The users have built that surplus, and yet we're accused of only contributing 36.5 percent.

The Senate Finance Committee is considering a bill—S. 1272—introduced by Senators Cannon and Kassebaum. It reflects their assessment of the revenue requirements of S. 508, the Airport and Airway System Development Act, which takes into account the huge Trust Fund surplus, and recommends a single-tier, 8½ cent tax on general aviation fuel, similar to the action of the Committee last year. We support that bill.

In conclusion, Mr. Chairman, any significant increase in general aviation fuel taxes would have a serious detrimental effect on an industry that is already suffering from inflation, high interest rates and fuel costs, and uncertain economic conditions. Aircraft unit sales are down and student pilot starts are off over 25 percent. A significant increase in aviation fuel taxes would further cripple the industry, resulting in additional lost jobs and compounding our Nation's economic problems.

We urge you to act promptly on this pending legislation so that aviation tax revenues can once again—after a year's diversion—be funneled into the Trust Fund. We also urge that aviation tax revenues collected in fiscal year 1981 and paid into the Treasury and the Highway Trust Fund be credited retroactively to the Aviation Trust Fund.

We agree that the reenactment of general aviation taxes is in order, but ask that it be set at a level which reflects the wisdom of this Committee just a year ago: 8½ cents per gallon.

We would be pleased to provide any further information to the Committee.

Chairman ROSTENKOWSKI. Are there any questions?

Mr. GIBBONS. No questions.

Chairman ROSTENKOWSKI. Mr. Duncan.

Mr. DUNCAN. No questions.

Chairman ROSTENKOWSKI. Mr. Frenzel will inquire.

Mr. FRENZEL. I don't have a question, I have a comment.

These witnesses, Mr. Chairman, seem to have borne out our worst fears about the administration's proposal. This committee really doesn't have justification for the proposal that is before us. I think their testimony is far more compelling than that of the administration which is proposing this legislation.

Chairman ROSTENKOWSKI. Mr. Bailey will inquire.

Mr. BAILEY. Just very quickly.

Gentlemen, thank you for some excellent statements. I will ask did you hear the question I asked this morning about benefits and impacts of the user fee concept. You referred to it, I think, Mr. Stimpson. Will you give me that information on employment, on benefits, economic benefits and that type of thing?

Mr. STIMPSON. We will be glad to provide you some information in this regard.

Mr. WINANT. Mr. Bailey, I also will be very pleased to do that. I am extremely sympathetic with the discussion you initiated this morning. I think the frightening parallel exists that what is done to the users of the aviation system would tend properly to be done to the users of the waterways system. I submit you have a big problem and we would like to give you information on it.

[The following was subsequently received:]

RESPONSE OF MR. STIMPSON

1. How much should be paid out of general revenues because of "public benefit"?
2. How shall the remaining cost be allocated between the various users?

Only the Congress can decide these questions after weighing all available information and arguments from all sources including, hopefully, consideration of the concepts developed in this study.

PUBLIC BENEFIT

The term "public benefit" will never have a precise definition or measurement in economic terms which is acceptable universally because "public benefit" is in the eyes of the beholder. "Public benefit" is determined in the political arena by the best judgment of legislative bodies of public needs and wants.

Oversimplified, some economists see no "unique public benefit" in any system if the cost of that system ultimately can be passed on to the consumer. This simple test would disqualify food subsidies, railroads, waterways, highways, educational systems, health services and a host of other functions either performed by or assisted by governments. Rigorous "unique public benefit" tests would qualify military and police functions but few other functions could meet the tests.

Even though no formula is stated to determine the public benefit in, and the public support of, a particular government function, determinations of public benefit are being made constantly through legislative processes.

In the case of aviation, the Congress consistently has declared a policy of promotion, encouragement, and development of civil aeronautics and, through appropriations, declared that the entire airway system and much of the development of airports were in the public interest. In enacting the Airport and Airway Development Act of 1970, the Congress directed the Secretary of Transportation to "identify the cost to the Federal Government that should appropriately be charged to the system and the value to be assigned to any general public benefit, including military, which may be determined to exist." Also, in that Act, the Congress declared "That substantial improvement of the airport and airway system is required to meet the demands of interstate commerce, the postal service and the national defense." It is clear that Congress expects the study to set a value on the public benefit aspects of the system.

"Public Benefit" may be considered in two distinct parts, i.e., military and the national economy. The military public benefit consists of the cost of handling military air traffic, the cost of providing facilities essential to military use but not essential to civil use, and the "standby" value of the system. The national economy benefit is the effect of the system in increasing efficiency of manpower utilization, distribution of goods, and availability of rapid transportation.

MILITARY BENEFIT

The FAA Ten-Year Plan indicated a low figure of 11 percent and a high figure of 39 percent and suggested that 20 percent of system costs could be allocated to military use. Presumably, this figure would vary from year to year as use varies.

A "military public benefit" also should be charged for the provision of facilities that would not otherwise be employed in the civil system. Several significant accommodations of the common system have been made to adapt it for military use. These accommodations were necessary to meet the objectives of a common civil-military system. The purpose of citing these features of the common system is not to suggest that they should not be included, but to point out that certain costs caused by the military should be borne by the general taxpayer rather than the civil user.

One feature is the provision of military frequencies at air-traffic-control facilities to accommodate the military use of UHF in air/ground communications. A second feature is the use of TACAN to provide a separate system of navigation, although civil aircraft use the "distance" portion of TACAN due to incompatibility of TACAN with the former "civil" DME.

A third, and much more expensive mutual accommodation, is the use of long-range primary radar for enroute air-traffic control. The Air Force is to be commended for permitting joint use of heavy military radar by the FAA to prevent conflicts between military and civil aircraft when the air carriers first introduced jets. The military had long range radars in operation to detect uncooperative intruders in the airspace and the FAA needed some means of handling increasing volumes of high-speed, high altitude traffic efficiently. Through the assistance and cooperation of the military, radar became an integral part of the high altitude common air traffic control system.

While acknowledging both the effectiveness of primary radar and the excellent cooperation of the military, it is unlikely that heavy primary radar would ever have been selected as the basic high altitude air traffic control tool. Primary radar sends out tremendous amounts of energy to scan the airspace and minute fractions are reflected back to the radar site from the surface of aircraft "illuminated" by the radar beam. Primary radar is designed to detect "targets" in the airspace regardless of the electronic equipment carried by aircraft.

In a "cooperative" environment a ground station may "query" an aircraft which will "respond" by transmitting desired information such as identity and altitude. This system, known as "secondary radar" is much more useful in the air traffic control system, is more reliable in that the energy returned from aircraft is not dependent on the amount of surface "illuminated," and requires less expensive ground installations.

Secondary radar (the air-traffic-control-beacon system) is the basis on which the present air traffic control alpha-numeric display is based. Thus, an existing military asset provided a solution to what should have been a temporary problem, but became embedded in the system and subsequently calculated as a charge to civil aviation. No long-range primary radar costs, present or future, should be charged to civil aviation.

The third category of "military public benefit" is provision of facilities that serve as military "standby." Usually, the standby value is dismissed on the theory that everything in the country—highways, manufacturing plants, telephone systems, etc.—are "standy" and are not necessarily supported by public funds.

The airway system should not be brushed aside so casually. The highway and other facilities would exist regardless of military potential use. The airway system contains elements that would not exist without a military requirement and should be assessed on the basis of whether the military would require the continuance of the facilities in the absence of a civil requirement.

Obviously, facilities established at military bases, such as approach control and navigational facilities, TACAN and long-range radar, would not be included in standby costs as they should be accounted for in the special military facility category. Standby value should be assigned to any other types of facilities the military requires to be in existence and operational in the event of military need or which are used for training military personnel.

An example of facilities with military standby value, over and above their use by military aircraft, are the Air Route Traffic Control Centers. The military must have an air traffic control system in being and, in the absence of a common system, would operate its own system for the safe and efficient movement of its own traffic. Further, since the FAA does not operate overseas in war theatres (except under the auspices of the military under specific arrangements), the military needs the use of common-system facilities to train military personnel for duty at locations not serviced by the FAA.

An additional consideration is priority use of the system during national emergencies. During World War II, the airway system was almost totally dedicated to national defense purposes. Virtually all civil aviation, other than air carrier or civil training for military purposes, was "grounded for the duration." Air-carrier schedules were severely limited and civilian air travel without a "priority" for national-defense purposes was difficult to impossible.

Although neither the Korean nor Vietnam wars had any significant adverse effect on civilian use of the airways system due to both the "limited" nature of the conflicts and increasing capacity of the system, it would be naive to assume that the military would not be granted priority use of the airway system as necessary for the successful accomplishment of military missions. Certainly the requirement for speed in moving men and materiel will become increasingly important in the future. This, added to increasing dependence on air due to the decline of both rail and merchant marine capability, makes contingent use of the system of value to the general taxpayer and should be supported by him.

OTHER PUBLIC BENEFITS

The highlights of the findings and conclusions of the DOT Aviation Cost Allocation Study Working Paper No. 15, "Socio-Economic Approach to Benefits of the Airport and Airway System" are:

1. "The existence and utilization of the air system lead to a significant time and cost savings to industry, which because it is equally available to all companies" is passed on to the consumer in lower prices and a "rough estimate (of cost savings) suggests direct savings of $8.8 billion for all industries."

2. "Community institutions believe they benefit from the air system beyond its dollar cost to them, and government, like private industry, experiences an augmentation of human resources. This benefit accrues to the public in the form of both cost savings and improved institutional ability to meet societal responsibilities."

3. "Public perceptions of air systems benefits to them far outweigh resident perceptions of system disbenefits . . ."

4. "The air system is broadly utilized by U.S residents for a variety of purposes . . ."

In Working Paper No. 9, "Benefits," it was noted that "in 1970 the airline sector contributed $6.1 billion of 1958 dollars out of a total gross national product of $730.9, while the general aviation sector contributed $0.55 billion of 1958 dollars. The industry employment figures are equally suggestive with the airline sector employing 349,000 employees in 1970, while general aviation employment amounted to over 39,000 employees in the same period. These estimates in fact only measure the direct contribution of aviation to the national economy and ignore the fact that the industry generates GNP in an indirect fashion through effects on secondary suppliers and producers. In fact, Fromm estimated that in 1960, the total—both direct and indirect—contribution of aviation to the national economy was of the order of $10 billion of 1958 dollars."

Working Paper No. 9 goes on to state that: "Significant reductions in GNP and the national standard of living precipitated by the lack of Airport and Airway expenditures would be an argument for general public subsidization of the aviation sector."

The Aviation Advisory Commission, established by Public law 91-258, 1970, in its report on "The Long Range Needs of Aviation," transmitted to the President and the Congress on January 3, 1973 found aviation to be "an asset of national importance."

"At a time when the nation has experienced its first net international trade deficit since the 19th century, a time when our low-technology exports have turned from surplus to deficit, it has been aviation which largely enabled the U.S. to maintain its leading world position in high technology manufacturing. Civil aviation exports—a third of our total production—were running at the rate of $3.0 billion in 1971, while U.S. general aviation exports alone offset the value of all civil aviation imports. Overall, today civil aviation exports exceed imports by a ration of nearly ten to one. In a single year (1971), the civil aircraft industry's $2.7 billion positive net trade balance contrasted with a negative trade balance of $4.7 billion for the rest of the nation's economy."

The Commission also observed: "Ranking alongside hardware sales as a measure of aviation's importance are those generators of trade and employment, the airports. Recent Air Transport Association studies show that the three New York area airports collectively provide 77,000 jobs (at an average salary of $12,640) and maintain a payroll of $965 million, making them the fifth biggest employer in the area. Los Angeles International provides direct employment for more than 37,000 people, and Miami, with more than 60,000 people employed, has an annual payroll of in excess of $650 million. By 1975, when Dallas/Ft. Worth goes into high gear, the North Central Texas economy is expeted to benefit to the tune of 46,000 jobs and $600 million per year."

The Commission pointed out the contribution of small airports and cited the example of Ohio where 62 new airports were established between 1966 and 1972 in a program which produced the following benefits:

"Manufacturing was increased by the creation of many new firms and the expansion of existing ones."

"Retail trade was expanded."

"Land values adjacent to the airports jumped dramatically with a year of a facilities' completion."

"Twenty new industrial parks came into being."

"Much of an employment increase of 60,000 jobs was directly or indirectly attributable to the airport program."

"Much of a $250 million personal income rise was directly or indirectly attributable to the airport program."

"Much of a $1 billion capital investment was directly or indirectly attributable to the airport progrm."

The Commission dramatized the importance of civil aviation by sketching what would happen if all civil aviation were to be grounded. The Commission predicted:

"Many small, widely scattered communities in our western and mountain states would find themselves stripped of the services of physicians, engineers, pathologists, and certainly businessmen, for whom the private plane alone overcome the economic disadvantages of dispersion."

"Management would have to revert to old-style plant centralization, for today's 2,600 scheduled transport planes, 6,800 corporate aircraft, 3,800 air taxis, 690 commuters, and 102,000 personal planes would no longer be able to supply the mobility on which the burgeoning movement to economic decentralization was founded."

"Inventory costs on expensive items would mount, for they would have to be stockpiled rather than ordered on a morning and air delivered the next day."

"Errors in scheduling, mistakes in procurement, failure of critical parts, would exact a rising tool on assembly lines for, again, they could not be quickly rectified by air-freight, air-taxi, or business plane."

". . . Agriculture and forestry would suffer as 5,400 planes engaged in seeding and pesticide dusting and spraying failed to take to the air; more forest fires would roar out of control for lack of smoke jumpers, spotters and equipment."

". . . Crime control and prevention would be set-back without far-seeing helicopters."

Other examples relating to foreign relations, mail and amenities were mentioned, and the Commission concluded:

"Civil aviation's absence would clip the nation's pocketbook, reduce its standard of living, circumscribe its horizons, narrow its options, and severely inhibit the nation's defense capabilities."

The Commission also noted: "In relation to Gross National Product, civil aviation (manufacturing, maintenance and operation both freight and passenger) rose from .6 percent in 1960 to .99 percent in 1970."

Since the GNP in 1970 was $730.9 billion, the direct contribution of aviation is estimated at $7.2 billion. No estimates of indirect contributions were made by the Commission.

While other sources of estimates of the contribution of aviation to the public good might be cited, it is clear that the minimum value that should be placed is $10 to $15 billion direct and indirect contributions to GNP with another $9 billion in savings to consumers. The economy benefits at least $20 billion a year from the presence of an aviation system.

Some may argue that total benefits from civil aviation are separable from and not dependent upon the airport and airway system. The benefits from civil aviation are dependent upon an integrated whole; airplanes must have places to take-off and land and facilities for safe navigation between those airports. There would be no aircraft manufacturing industry without an airport/airway system; conversely, the airport/airway system would be useless without aircraft and their operators.

DOES THE PUBLIC THINK IT SHOULD PAY?

As stated in the beginning, "public benefit" is in the eyes of the beholder and it is of significance to determine if the general public perceives benefits and is willing to pay for them.

The Opinion Research Corporation of Princeton, New Jersey conducted a research study in June 1973 for the General Aviation Manufacturers Association to measure public perceptions of the attitudes toward General Aviation. Among their findings were:

"Three quarters of the American people, or more, believe that General Aviation provides important social and economic benefits. Specific areas to which these benefits are attributed: emergency disaster services; creation of jobs; saving the time of businessmen; movement of mail and cargo; facilitation of travel for people living far from major airports; industrial growth and development of the rural areas, and improvement of our balance of trade."

The study measured public attitudes toward "air transportation in general" and found, in part.

"An impressive majority of the public believes that air transportation in general, is of equal importance to or of greater importance than other means of public passenger and freight transportation."

"The most popular means for supporting our air transportation system, subscribed to by 43 percent of the public, is a combination of federal taxes and user fees; the next most popular (32 percent) is by fees charged only to users of the air transportation system; however, those advocating either a combination of federal taxes and user fees or support solely by federal or local taxes comprise the majority (55 percent) and, when those expressing no opinion are omitted, 60 percent favor a combination of taxes and fees."

The Congress has long recognized both the public benefit (and the public's perception of it) and has expressed that recognition in the creation and development of the airport/airway system at public expense. The fact that the Congress decided there should be "user charges" did not reduce either the measurable or perceived benefits.

HOW MUCH SHOULD THE PUBLIC PAY?

It could be argued logically that the general taxpayer should continue to support the entire cost of the system (as was done prior to 1970) on the basis of the total military and other public benefits received. However, the Congress has recognized that the direct users—the air travellers—receive direct benefits also and should pay their fair share for those benefits.

Since the public benefits have been proven historically to be large enough to support the system and since a scheme of user charges might be devised that ultimately could support all system costs, judgment of equity must decide the fair share to be paid by the general taxpayer and the air traveller.

As noted earlier, the general taxpayer should support: (a) Military use of the system. (b) System components added to accommodate military flight operations.

(c) Standby value for contingent military priority use and for training. (d) Civil economic benefits.

The value of military "use" has been estimated by the FAA as 20 percent of system costs which is acceptable. The value of system components to be installed and operated because the system is truly a common civil/military system (such as long range radar, TACAN, ATC at military bases, etc.) can be computed accurately, and an estimate of 5 percent of total costs is conservative. The "standby" value is less susceptible to computation, but 5 to 10 percent would be a minimum consideration. Thus, in total, the military part of the "public benefit" should be 30 to 35 percent of total costs as a minimum.

The economic public benefit is much less susceptible to calculation. As previously noted, the gross public benefit from civil aviation is estimated to be a minimum of $20 billion annually. If the taxpayer paid 10 percent of that value, he would be paying about $2 billion annually, or the full cost of equipping, maintaining and operating the system and he would be getting a bargain.

At the other extreme, some argue that, despite proven public benefits, the users should bear the entire burden and pass the costs on—somehow—to the public beneficiaries. If this argument is accepted, a serious question is then raised concerning governmental planning and direction of a system where there is no public financial support. If the users pay all costs, the users should determine, without government intervention or control, all matters relating to the system including deployment of facilities and hiring, firing, and utilization of personnel.

The government should not relinquish control of the system to a private profit-oriented group as the military operations would then be either under the control of the private group or forced to operate its own system and the government would no longer control one of its most vital assets—the airspace.

The analogy may not fit entirely, but in private business the controlling interest must own, or control, the majority of the stock. This would suggest the total public share should be more than 59 percent to merit public control and direction.

A realistic pragmatic approach would be to accept the present status as correct and not attempt to change the status in the absence of clear persuasive reasons to do so. This position is supported heavily by the very fact that the legislative process developed the present status in shaping the Airport/Airway and Revenue Acts of 1970 and subsequent Congressional mandates concerning application of user charges to capital costs only.

There is another strong argument for maintaining status quo; it is working well. Substantial revenues are being produced, the level of charges for passengers and fuel are not regressive and the purposes of the Airport/Airway Act are being met.

The range of realistic alternatives appear to be limited. It would be futile to argue for complete support by the taxpayer (although a good case could be made) as that issue was decided in the Airport/Airway Act and the principle of user taxes is in effect and working. Any effort to shift the entire burden to user taxes would not only fail to recognize the real public benefits flowing from the system, but would destroy, or severely cripple, those benefits by regressive taxation. Congress, by actions to date, and the public (based on the Opinion Research Survey) believe that a combination of user taxes and general taxes are required to support the system. The alternatives then lie in "what ratio of user charges to public support funds?" The current answer is the users pay for capital costs (30 percent) and the taxpayer pays for operation and maintenance (70 percent) assuming continued $.6 billion capital and $1.4 billion operation and maintenance costs annually. As time progresses and the system matures, other ratios might be considered, but in any event the public share should never be less than 50 percent of total costs to partially offset the value received by the public. At the present time, the system in effect is fair, is working, and there are no clear arguments for changing it.

REMARKS BY JOHN H. WINANT, PRESIDENT, NATIONAL BUSINESS AIRCRAFT ASSOCIATION, INC., AT NBAA MEMBER COMPANY BRIEFING SESSION, HOTEL WASHINGTON, WASHINGTON, D.C., MAY 15, 1981

What brings us together this morning well qualifies for that time worn legislative sobriquet "hardy perennial." It sends up fresh shoots every time we have a new Congress or a new Administration. It thrives with minimum tending and it seems practically impossible to dispose of it.

Transportation user taxes and their general public implications are a mature reality in the national aviation system. But with the exception of the highway community the matter is in its infancy elsewhere in the transportation world, as we shall see.

The thesis that users of the national aviation system should pay toward its capital needs, operating costs and maintenance needs has existed for many, many years. Significant debate on the topic no longer continues, except that part which concerns the degree of payment.

Congress signalled shutdown of the debate with enactment of the 1970 Airways and Airports Development and Revenue Act, a major piece of legislation which had the support of the bulk of the aviation community, and which created a number of user taxes.

For more than a decade there has been general agreement in the aviation community that the directly identifiable users—the airline passengers, the shippers of goods by air, the owners and operators of general aviation aircratft—should all assume shares of bearing the costs of the system which is provided by the Federal government through authority granted by the legislative branch.

The debate in recent years has, then, not concerned who should pay, but has shifted to the question of how much should be paid by the various identified users, and how much should properly be paid by the general public, which can fairly be considered an indirect yet very substantial beneficiary of the aviation system.

Various government studies have attempted to define how fair shares of the system's costs should be allocated among users. There is great disparity among these studies, but one universal conclusion has been that general aviation, of which business aviation is a major segment, has paid for only a small percentage of its purported allocable share through the taxes levied on it by the 1970 Act.

Mr. Samuel Ewer Eastman has very recently conducted an independent analysis of the situation which has been published under the title "General Aviation and the Airport and Airway System—An Analysis of Cost Allocation and Recovery." Mr. Eastman's work, undertaken for NBAA, uses as its base reference point the year 1978, the same period utilized by the Federal Aviation Administration in its most recent study.

The Eastman work concludes that, allowing only for a 26 percent general public benefit, general aviation pays between 58.1 percent and 72.6 percent of its fair share. In both cases, these figures are dramatically higher than conclusions reached in the government studies.

The determination of how much of system costs should be assessed to the general public benefit is, of course, critical to the whole question and actually requires resolution before intelligent study can be given to the size of the taxes which are to be imposed on the direct users.

The FAA, as noted above, assumed there was a 26-percent general public benefit in 1978. An earlier study, conducted by the Department of Transportation, could find "no unique public benefit" in the aviation system. Congress, on the other hand, has consistently assigned a public benefit level of more than 50 percent of total system costs. It has done so by design, in estimating how much revenue would be raised through the taxes it has set.

The taxes set by the Congress in 1970, and reviewed by it in 1976 with no changes being made, consisted of the following: Tax on Transportation by Air: (passenger ticket tax): 8 percent; noncommercial (general aviation) fuel tax: 7 cents per gallon; waybill tax: 5 percent; international passenger tax: $3; tax on use of civil aircraft: Minimum $25 annual fee, increasing above weight minima, by 3 cents per pound on turbine-powered aircraft and 2.5 cents on nonturbine aircraft.

Because in 1980 the 96th Congress failed to extend the 1970 airport-airways act, most of the foregoing taxes either have expired or have reverted to lower levels. Those remaining in place in May, 1981 are: Tax on air transportation (passenger ticket tax): 5 percent; noncommercial (general aviation) fuel tax on aviation gasoline: 4 cents per gallon.

All of the revenues generated by aviation user taxes since 1970 have been credited to the Airport and Airway Trust Fund, and a portion of the monies so credited have been used over the years for airport development (ADAP) grants which require a relatively modest local contribution as a "matching" incentive; some funds have been used to purchase new airways facilities and equipment (F & E) and to provide for basic pertinent research; since 1976, some funds have been used to support FAA maintenance and operations (M & O) in particular those related to keeping navigational facilities fine tuned.

More than was actually used was available to use, but because of attitudes in the Office of Management and Budget throughout the 1970's, authorization to use trust fund monies for most Congressionally intended purposes has been blunted. The fund now carries a surplus of almost 4 billion dollars. There has been no airport development program authorized for the current fiscal year, yet facilities and equipment monies are being withdrawn from the fund, as are maintenance and operations monies.

In the aviation community there has been growing strong dissatisfaction with the disparity between trust fund surpluses and unmet, urgent needs for airport and airway system improvements. Successive Administrations have seemed much more concerned with using trust fund revenues to pay for increasing employment levels at FAA than they have been with meeting system facility and airport capital investment needs.

Successive Administrations also have been intensely disposed toward increasing general aviation's user taxes. The Carter Administration urged establishment of a 6 percent excise tax on all new general aviation aircraft; a 6 percent excise on all new avionics equipment; and a 10 percent per gallon tax on general aviation fuels. The Congress saw precious little wisdom in those proposals.

Last summer, in making a searching review of the tax situation, inclusive of the Carter proposals, and in preparation for expiration of most of the taxes as of September 30, 1980, the House Ways and Means Committee by voice vote, and without audible dissent, adopted the following: Tax on air transportation (passenger ticket tax): 8 percent continued through fiscal 1982, then 5 percent; noncommercial (general aviation) fuel tax: 8.5 cents per gallon; waybill tax: 5 percent; international passenger tax: $3; tax on use of civil aircraft: Rescinded for noncommercial aircraft.

The Ways and Means Committee tax package, and a slightly different version which came out of the Senate Finance Committee, were never enacted by the full Congress, however, since action was not timely completed on the key authorizing sections of the airport-airways bill.

A new Administration is now in place and is vigorously promoting a wideranging "Program for Economic Recovery" which in general terms aims at reductions in Federal spending levels and reductions in taxes.

Ironically for general aviation, the program would initiate increases in taxes which would rise in the magnitude of 900 percent over the next several years. Coupled to the tax proposals for aviation are several parallel programs which deal with the users of other national transportation systems, notably those systems which are operated by or funded by the Federal government.

To put these into context, let us examine the Administration's transportation policies by using the words of principal spokespersons. Let us then examine the specifics of the program recommended by it for aviation. Finally, let us examine proposals which would affect users of other transportation systems and try to measure: The soundness of the aviation proposals, and whether or not aviation fares equitably with respect to what is contemplated for the other systems.

In early April, Darrell M. Trent, Deputy Secretary of Transportation, spoke at hearings of the House Aviation Subcommittee. In describing Administration proposals for airport and airway legislation, he noted: ". . . we have proposed tax relief for the general taxpayers by recommending that airport and airway system users pay for the FAA services they receive.

"These proposals are fully representative of the threat of the President's program; they raise the issues that are at the heart of the national dialogue on Federal budgetary policy. In brief, it is our view that while the funding issues and other questions we are facing today must be considered on their own merits, they cannot be considered outside the context of the larger national debate on the Federal budget."

Later he commented in more detail: "One of the most critical items on the President's legislative agenda is the need to provide relief to the overburdened general taxpayer. One of the ways that the general tax burden has built up over the years in that Federal programs have been structured to provide very significant financing out of the General Fund of the Treasury for the benefit of very particular segments of the population.

"We all know the consequences of this pattern. When people who benefit from particular government services do not pay for those services, the general taxpayer has to pick up the tab. This subsidy of particular groups is contrary to the President's efforts to relieve the general tax burden, and in this legislation, Mr. Chairman, we have the opportunity to take bold and necessary action on behalf of the general taxpayer by requiring aviation system users to foot the bill for aviation services provided to them.

"I might add, Mr. Chairman, that the 'user pays' concept is one that the Administration is applying to other programs, and it is one of the fundamental principles applied by the President in developing his budget."

Judith Connor, Assistant Secretary of Transportation for Policy and International Affairs, has been another prominent spokesperson for the Administration's case. She recently summarized the President's economic program as being "Comprised of four basic thrusts: one, tax relief; two, spending cuts; three, regulatory reform; and four, responsible monetary policy."

On a more specific level, and in relation to the transportation budget, she enunciated the principle that "the general taxpayer should not have to pick up the tab for services provided to an identifiable class of users. We are applying this principle to all modes of transportation with a phase-in of user fees as necessary and appropriate."

I ask you to take particular note of that last sentence, for the manner in which the Administration intends to apply the precepts set forth in it is of absolutely cricial importance. Business aviation's case would perforce stand or falter in direct relationship to how even-handedly the Administration would apply the principle "to all modes of transportation."

A final set of quotations from Ms. Connor's recent statement is appropriate. The course of review of the FAA budget led the participants to adopt several criteria. These she identified as follows:

"First, the safety assurance of the system is essential,

"Second, the development of an en route system to meet future needs must proceed rapidly,

"Third, users of the system should ultimately be responsible for its costs, and

"Fourth, those parts of the system for which a need for Federal participation can no longer be justified, should be weaned from Federal funds and, simultaneously relieved from Federal interference and regulations."

Using the policy precepts expressed in the foregoing, the Administration has presented a series of proposals to the Congress, each of which deals with methods of cost recovery for the several national transportation systems.

That even-handedness exists as a common thread in these several proposals is, of course, an essential which we have every right to expect.

The beginning point for even-handedness should be predicated on recognition that there are three distinct elements which taken together account for what I conclude Mr. Trent and Ms. Connor refer to as "costs" or the "the tab." These are:

Capital costs, or the equipment, concrete, channel, roadbed, track or other identifiable sets of tangibles which constitute the system.

Maintenance costs, or the expenses required to keep the elements of the system in sound and safe working order, and

Operating costs, or the expenses attendant to assisting, regulating or providing means by which the users may travel on or through the system.

An even-handed policy would provide, for example, that if the users of one national system are to be expected to pay for the full capital costs of that system, then reason would dictate that the users of all systems should pay for such costs.

If, for further example, one system's capital, maintenance and operating costs are to be paid in full, or in large part, by that system's users, then the same concept should reasonably apply to users of all other systems, and there should be no exceptions.

THE ADMINISTRATION'S AVIATION PROPOSAL

The Administration has sent legislative recommendations to Capitol Hill which would result in new aviation user tax levels;

Tax on Transportation by Air (passenger ticket tax): 6.5 percent; noncommercial (general aviation) Fuel Taxes:

	Cents per gallon	
	Aviation gasoline	Jet fuel
Fiscal year 1982	12	20
Fiscal year 1983	18	35
Fiscal year 1984	24	50
Fiscal year 1985	30	58
Fiscal year 1986	36	65

These tax proposals are coupled to trust funded airport development, facilities and equipment, and system research and development spending programs which are dramatically lower than those contained in either of the original House or Senate bills.

The Administration also supports "defederalization" of the airport development program. This would lead to removal of major airports (41 over two years) from the program. One result would be shrinkage in the size of the Federal aid program, but the Administration makes no case for concommitant lowering of taxes.

The recommended totals of monies to spend from the fund on airport and airways needs over the next five years would be about 5.1 billion dollars.

On the other hand the Administration would divert more than 11 billion dollars of trust fund revenues to pay for FAA operations and maintenance expenses over the five year period, which figures out to an annual increase of some 400 percent above existing funding.

Ms. Connor has stated it is the Administration's judgment "that 85 percent of the total costs of the FAA system can be allocated directly to commercial and general aviation users of the system and should be paid for by those users. The remaining 15 percent is allocated to defense and other government users . . ."

Please note that:

The Administration believes direct users should pay for 85 percent of all three elemental system costs: capital; facilities and equipment; and maintenance and operation.

The Administration places a public benefit value of only 15 percent on the national aviation system, dramatically lower than any previous finding contained in government studies or inherent in Congressional action.

Significant note also should be made that the proposal calls for differing tax levels on aviation gasoline and jet fuel, where there was a single level in effect from 1970 through 1980. Ms. Connor described the differences in proposed taxes as "a stroke of genius" while Mr. Trent has said "Planes using jet fuel tend to be equipped with more avionics, and generally make greater demands on the national airspace system . . ." Ms. Connor adds that the taxes "reflect the relative use of the en route system of the classes of general aviation users."

NBAA takes exception to the rationale on which the differing tax level concepts are predicated, as it does with other portions of the Administration proposals. The exceptions are spelled out below.

THE ADMINISTRATION'S INLAND WATERWAYS PROPOSAL

Contemplated here is discontinuance of a four cent per gallon tax on fuel used by commercial barges and substitution for it of a system of fees and charges to be set by the Secretary of the Army (its Corps of Engineers is largely responsible for the waterways system). The fee structure would aim at eventual recovery of capital, operating and maintenance costs assignable only to commercial waterway transportation. The fees would be reduced, insofar as capital costs are concerned, for any recreational use inherent in a waterways project and for any other multiple-purpose projects. In the case of costs involving projects on the Mississippi River and its tributaries (the principal artery of the waterways system) fees would be expected to cover only 25 percent of total project costs.

THE ADMINISTRATION'S BOAT AND YACHT PROPOSAL

The concept here is to recover from the users, in this case owners of boats and yachts, only a portion of operating costs assignable to the United States Coast Guard. There is no announced plan to recover any portion or capital or maintenance costs. The Administration feels that at least 50 percent of the Coast Guard's operating costs are to be debited to general public benefit. The Administration proposals would bring in an estimated 100 million dollars in fees in fiscal 1982, which compares with a projected Coast Guard budget of 2.191 billion dollars.

THE ADMINISTRATION'S AMTRAK PROPOSAL

By raising fares and eliminating routes, the plan here is eventually to recover 50 percent of Amtrak costs excluding capital costs. Through Fiscal 1986 the Administration would spend 2.3 billion of general (public) dollars to meet capital needs of the Amtrak system.

THE ADMINISTRATION'S CONRAIL PROPOSAL

In this case the Administration seeks 613 million dollars in general (public) revenue aid during the forthcoming year, but is leaving the door open for possible sale of Conrail freight operations. Commuter lines and some other operations might be offered to local or regional public authorities.

THE ADMINISTRATION'S HIGHWAY PROPOSAL

While the Administration plans no increase in the existing four cent per gallon gasoline tax, it awaits completion in early 1982 of a Department of Transportation Highway Cost Allocation Study. Its long range plans, as presented to the Congress, call for further work on the interstate system, but less than previously planned completion; the primary system would continue to receive funding from the Highway Trust Fund, but the secondary system would lose such support starting in fiscal year 1984. It should be noted that an increase of two cents per gallon in the existing fuel tax was proposed at Cabinet level but was summarily rejected on grounds that the new Administration had come in on a platform of lowering, rather than increasing, taxes.

A review of the various Administration plans for transportation user taxes or fees and for shift of system costs to the direct users indicates that aviation is being dealt with unfairly.

Aviation users would be expected to pay for the overwhelming proportion of all costs—capital, operating and maintenance—while users of other systems would be expected to do far less, and in some cases next to nothing.

The national aviation system is considered to justify only a 15 percent total public benefit allocation, far less than the only other benefit so defined, which is set at more than 50 percent of operating costs and 100 percent of the others. Congressional history on the subject of public benefit, buttressed by the immense latent defense value of the aviation system, appears to dictate a much larger public share than has been determined by the Administration.

The only user taxes or fees which would be increased would be those for aviation—all of it, commercial and private—and those for commercial waterways transportation. In the case of general aviation the Administration proposal would result in increases of the magnitude of 900 percent. This seems singularly odd where "supply side" economics dictate decreased taxes as a necessary incentive for economic recovery.

WHAT IS FAIR?

The National Business Aircraft Association believes the process of assessing a fair tax on non-commercial aircraft (general aviation) operators must take several elements into account:

Congress should determine the appropriate portion of aviation system costs to be assigned to the "public benefit" and paid from general revenues. No Administration, including the current one, has been able to make such a determination in an even-handed manner which takes all transportation systems into account. The Congress is the appropriate body to make the determination on a reasonably lasting basis.

Taxes should have a relationship to the expenses authorized by the Congress in the airport-airways bills now being enacted by the two houses. Taxes should be sufficient to support a determined share of authorized spending programs, but should not be used to build large unspent surpluses in the aviation trust fund.

A tax on fuel, stated in cents per gallon, is an acceptable means of fairly sharing system costs.

A single tax rate should apply to aviation gasoline and jet fuel. The argument advanced that jet powered aircraft operators should pay a higher rate is specious. The argument claims jet aircraft use more of the system and should be more heavily taxed. They would be more heavily taxed by a single rate, since they use more gallons of fuel and would pay a much higher share of system costs whether measured in hours or miles. A higher rate of tax would result in a double penalty.

The process of establishing a fair tax on non-commercial aircraft (general aviation) should begin at 8.5 cents per gallon, the amount set by the House Ways and Means Committee in 1980 as the result of extensive hearings.

Taking all of the foregoing into account—the history of aviation taxes, the transportation policies of the new Administration, its specific programs, and the presence of a large public benefit derived singularly from the aviation system, such a process is just and fair to all.

[NOTE.—Quotations above were taken in Mr. Trent's case from his statement prepared for delivery before the Subcommittee on Aviation, Committee on Public Works and Transportation, U.S. House of Representatives, April 2, 1981; in Ms. Connor's case the quotations are from text of a speech delivered at the annual meeting of the Aviation and Space Writers Association, Los Angeles, California, April 14, 1981.]

Mr. GRAVES. You might look at the benefit to the general public. Your area is particularly not a major population center and you are dependent on aviation to get you into the mainstream of the Nation's economy.

Mr. Bailey. I did not mean to exclude aviation or use waterways as the best example. I agree generally.

Mr. Graves. I think it is the fact of the public benefiting from what aviation does in the country that I want to stress. Yours is a classic case.

Mr. Bailey. Yes, thank you.

Chairman Rostenkowski. Mr. Rousselot will inquire.

Mr. Rousselot. Thank you for your statements. Your statements have been helpful. You all seem to emphasize that if we pass the bill as suggested that by 1985 there will be a very substantial surplus in the trust fund. We appreciate your mentioning that.

Mr. Graves, you state on page 6 of your statement——

Mr. Graves. I did not realize it was that long.

Mr. Rousselot. It was. We appreciate your submitting it for the record and summarizing.

There was great stress by the FAA in their statement that one of their major regulatory functions relates to safety improvements. Yet you say in your statement you not only strongly oppose the administration's bill but also H.R. 2643. Then you go on to say:

> If you are looking for airport safety improvements don't look for them in H.R. 2643. The majority of the money will go for administrative costs and less than half of the small portion that is allocated for airports will be spent on the basis of need.

On what do you base that statement?

Mr. Graves. Well, there are two parts to that question. Overall, the money that has gone to airports has been just pried out of the FAA over the history of the system. The reason the administration focused on legislative intent up here, was that as soon as they set up the trust fund in the first year of its operation they took over a billion dollars out of the trust fund for administrative purposes, for operational costs, because that benefits the FAA, paying for the costs they are going to have to incur anyway.

They are not interested, institutionally, in improving airports as much as they are interested in budgetary tactics. The Congress had to step in and say don't take it. Then the Congress decided to put a ceiling on the maximum amount they could spend on operations, a statutory ceiling. They had simultaneously a statutory floor on what they could spend for airports. Every year they fell below the floor.

So just based on past history we know that the emphasis is going to be on their operations account. We can look at the past and we know from political science that that is the way it is going to be.

The second part of the question is: Does the money go where it is most needed? The answer is no. It is allocated on a formula basis. Not on aeronautical reasons but on the number of passengers who come to an airport, so that the airports that are large hub areas where people transfer from one place to another receive more money than they maybe need aeronautically.

At Kennedy, for example, they didn't have any aeronautical need. They wanted to use their money for better subway access and improve the roads leading to the airport.

Los Angeles has a big terminal development there. They are not going to be building runways all over the place. They have all the electronic gear that they will probably need for a while. The FAA has the statistics in the background to provide the money on the basis of need but for all the reasons you know it is not done that way.

Mr. ROUSSELOT. You are saying that history proves exactly the opposite as it relates to the utilization of this money for safety purposes or improvement?

Mr. GRAVES. Yes.

Mr. ROUSSELOT. Thank you, Mr. Chairman. I will yield back the balance of my time.

Chairman ROSTENKOWSKI. Are there any further questions?

Mr. Ford will inquire.

Mr. FORD. Thank you, Mr. Chairman.

Mr. James, the Committee on Public Works and Transportation in its report on H.R. 2643, the Airport and Airway Improvement Act of 1981, recommended that the House Ways and Means Committee examine the Treasury Department's recent change to airline IDB financing and proposed a legislative resolution that would reinstitute tax-exempt financing for airport development in its historical form.

Could I get you to state your association's position and the reasons for your position?

Mr. JAMES. Our position is that any activity that is associated with the airline function at an airport should be included in the industrial development bond concept which, as I understand, is the thrust of the report that came out of the Public Works Committee with regard to H.R. 2643. Therefore, we are as an association in support of that.

Mr. FORD. You are in support of that?

Mr. JAMES. We are in support of it.

Mr. FORD. If the Congress were to enact legislation overturning the Treasury's rule which presently prohibits the IDB financing airline functions and computers, what impact do you think, if any, would this bill have on financing?

Mr. JAMES. I think you would find, particularly in the smaller or medium-size airports and among the smaller and perhaps medium-size carriers, that they would be moved to go ahead and initiate construction of such facilities. We further think that even if this were included under the industrial development bonds that it would not have any noticeable effect on the revenue of the Treasury as to whether or not it was done in this way or if it were done in other forms outside of the industrial development bond concept. In such cases you would be allowed the depreciation for those buildings if it were off-airport financing, whereas you are not allowed that if you do it under the IDB concept.

Mr. FORD. You mentioned smaller airlines. Let me raise another question. What impact, if any, do you think it would have on small airlines, smaller cities, if this regulation were overturned?

Mr. JAMES. I can't be specific in terms of how many or which ones but I think that the enactment of such a concept would assist or accelerate the building of various airline-related facilities more on airports than off airports. The efficiency concept of building near where you are doing business, I think, would be the overruling factor.

Mr. **Ford**. In essence, what would be the overall effect if Congress were to reinstitute this tax?

Mr. **James**. With regard to revenue?

Mr. **Ford**. Yes.

Mr. **James**. We think that it would not decrease the revenue of the Treasury over what they would have if we were forced to build such facilities off-airport and could at the same time depreciate the equipment or property.

Mr. **Ford**. Would you say the loss to the Treasury would be less?

Mr. **James**. It would be a nominal, if any, loss. We think it would be, in effect, a wash.

Mr. **Ford**. You don't think the impact would be that severe on the smaller airlines?

Mr. **James**. I think that they might become more motivated to build on-airport as a result; yes.

Mr. **Ford**. I have no further questions, Mr. Chairman.

Chairman **Rostenkowski**. Any further questions?

Thank you, gentlemen.

Mr. **Winant**. Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Mr. Edmund Nelle, Mr. Richardson, and Mr. Spigai.

Gentlemen, we will receive your testimony in the order in which I called you.

Mr. Nelle, if you will begin by identifying yourself for the record.

STATEMENT OF EDMUND NELLE, JR. (PRESIDENT OF BUTLER AVIATION INTERNATIONAL), CHAIRMAN OF THE BOARD, NATIONAL AIR TRANSPORTATION ASSOCIATION, ACCOMPANIED BY WILLIAM H. POWER, MANAGER OF LEGISLATIVE AND INDUSTRY AFFAIRS

Mr. **Nelle**. Thank you Mr. Chairman and gentlemen.

Mr. Chairman, I am Edmund Nelle, Jr., president of Butler Aviation International and chairman of the Board of the National Air Transportation Association [NATA]. With me today is William H. Power, NATA's manager of legislative and industry affairs. We appreciate the opportunity to present the views of our members on aviation trust fund tax levels.

As the only organization representing the Nation's air taxi carriers and ground service and support organizations, commonly known as fixed base operators or FBO's, NATA has historically advocated aviation tax levels adequate to support the Nation's air transportation system without creating a huge surplus in the aviation trust fund.

Furthermore, it has been the position of our board of directors that the association should support the equitable distribution of the tax burden among the many system users. Our historical position remains unchanged as we appear before this distinguished committee today.

We feel the Administration's tax proposal under H.R. 2930, currently before this committee, will not meet the objectives of collecting only those tax moneys that are needed or provide equitable distribution of the tax burden among the users. Instead, H.R. 2930 will have the tendency to create an excessively large trust fund surplus and cause gross inequity in the way in which the tax burden is distributed.

Ostensibly, the rationale behind the administration's proposal is to have enough money in the trust fund to purchase computer equipment to modernize the air traffic control [ATC] system. While we agree the ATC system needs upgrading, we feel that it is improper to require users to begin funding such a program until system requirements and a timetable for expenditures are well defined.

The Federal Aviation Administration has already testified before various committees of Congress that computer size, architecture and reliability levels have not yet been identified and therefore total costs cannot be defined. In short, the administration is asking the aviation community to fund the modernization program sight unseen. We vigorously oppose the issuance of a blank check for this or any other expenditure.

It is our recommendation that the decision to establish taxes to pay for ATC system modernization should be deferred until the total cost and cash flow projections of such a project are clearly identified. At that point, the tax levels necessary to fund the project can be determined and assessed.

Mr. Chairman, NATA members do not want special consideration in the establishment of aviation tax levels. We are quite willing to pay our fair share, but the administration is simply asking too much from general aviation.

In summary, a much more equitable approach would be the establishment of lower tax levels and the slow drawdown of the current trust fund surplus. Then, at a time when ATC system modernization costs are most clearly defined, adjustments to tax levels, if necessary, could be made to support the program.

In closing I will say that our association generally supports the 8.5 cents per gallon program across the board with no differentiation between aviation gas and turbine fuel. I contend personally that the high surplus which it appears will develop from the administration's tax program is contradictory to their very economic philosophy.

The philosophy appears to be that moneys left in private hands, industry hand, could be far more valuable to the support of the entire country. At the time that the funding is necessary for new systems and new modernizations, perhaps if there appears to be no surplus and we have the money in our hands to utilize it for the general economics of the country, we will be in a far better position to support higher tax levels that are necessary.

Gentlemen, thank you. I am prepared to answer any questions.

Chairman Rostenkowski. Mr. Richardson, you may proceed.

STATEMENT OF ROBERT A. RICHARDSON, EXECUTIVE DIRECTOR, HELICOPTER ASSOCIATION INTERNATIONAL, ACCOMPANIED BY GLEN A. GILBERT, CONSULTANT

Mr. Richardson. My name is Robert Richardson, executive director of the Helicopter Association International. I have with me Glen A. Gilbert, consultant to our association.

We have submitted written testimony for the record. We would like to summarize it. We have elected to begin with a statement by Mr. Gilbert and I will finish it up.

Mr. GILBERT. Mr. Chairman and gentlemen, a brief word of background about the Helicopter Association International. It was formerly called the Helicopter Association of America. It is an independent nonprofit organization, the membership of which consists of all the helicopter manufacturers of the United States as well as just about all the major operators of helicopters in the United States.

HAI members operate in the fields of agriculture, airlines, airtaxi, construction, executive transport, law enforcement, energy exploration, rescue, logging and in many other civil applications. A more detailed breakdown of these applications is contained in appendix "C" of this statement.

Since many people are not too well acquainted with what helicopters do and of advancements that have been reached in services provided by these vehicles during the last 10 years or so, I would strongly recommend if you have a moment to run through appendix C. You might find it quite interesting.

During the past 10 years, the civil helicopter industry has been the fastest growing element of civil aviation in this country. Growth has averaged more than 12 percent per year. In 1980, the industry employed over 75,000 people in helicopter manufacturing and operation. It manufactured some 1,200 helicopters, operated over 8,000 helicopters in the United States alone, and the export value of its products contributed significantly to this country's balance of trade. Gross revenue for 1980 exceeded one billion dollars.

Now I would like to take a few minutes to give you our ideas on some basic principles, general principles about user taxes.

In any assessment of airport/airway user taxes to be levied directly on civil aviation, due consideration should be given to the general public benefits derived from having a reliable national air transportation system. Our air transportation system should be reorganized as a national asset, which must be preserved at all costs in the national interest.

Punitive or burdensome direct user taxes on the civil aviation community could lead to serious degradation of this system. They also could lead to a diminishing demand for aircraft by users, which, in turn, would impact negatively on our aircraft manufacturing industry and result in loss of this country's leadership in the worldwide field of civil aviation.

It should be recognized that the national airport/airway system operated by the Federal Aviation Administration serves the common civil-military air traffic mix as specifically provided for in the Federal Aviation Act of 1958. Civil user charges for this system should not be based solely on the ratio of any current civil/military traffic count, but also on the potential military value of the system in time of national emergency as well as its continuing national security and general public benefit. See appendix "A" for helicopters.

During the past decade a number of studies have been conducted under the auspices of the Department of Transportation and others as to what should be the "public benefit" share of the FAA's budget.

You heard some previous witnesses comment on this particular subject.

These have ranged from the DOT's finding of "no unique public benefit" to more than 50 percent as evidenced by actual distribution of general revenue and user tax revenue approved by the Congress. We consider that now is the time for this question to be definitely settled as we move, presumably, into the second decade of airport/airway user tax legislation.

Therefore, we strongly urge the Congress to mandate in the companion tax legislation to the "Airport and Airway Improvement Act of 1981," that the public benefit portion of the FAA's annual budget shall be considered as being 50 percent and the civil user portion 50 percent. This would mean that the public benefit of 50 percent would be derived from the general revenues of the Treasury and the other 50 percent from civil user taxes.

Once this principle is firmly established, it would then be a matter of simply reviewing FAA's budget, about every 2 years, to determine the amount to be raised from direct civil user taxes. If, at the end of each review period, the uncommitted balance is projected to be more than the reserve amount stipulated by the user tax legislation—perhaps $550 million—user taxes would then be reduced accordingly. If the balance is projected to be less than the stipulated reserve, user taxes would be raised accordingly.

Assuming that the 50/50 principle is established along the lines outlined, it is obvious that some sort of formula is needed to determine the allocation of the 50 percent civil user tax portion of the FAA budget as between the different components of the civil aviation user community.

In this context, I should like to point out some basic considerations which I believe should be considered in developing such a formula:

One, all scheduled airline flights operate at all times within the FAA's air traffic control system. They always fly on IFR—instrument flight rules—flight plans and are subject to IFR separation criteria in all weather conditions, good or bad. They are major users of the system. To a large extent, the Federal airport and airway system has been developed specifically to meet the needs of scheduled airlines. I am not criticizing this situation at all. I am merely pointing it out as a fundamental factor in considering the distribution of user taxes within the various segments of the industry.

Two, general aviation, the other basic segment of the civil aviation users, has many variations as to its needs for and use of the FAA traffic control system. Some, such as business aircraft, use the system in the same manner as do the airlines. Others, such as private flyers, may not use it at all. In the case of helicopter operators, we may not use any FAA facilities in remote areas and many offshore activities. In other helicopter applications, such as in business/corporate operations, we may use the airport/airway system fully or just partially.

With the foregoing facts in mind, the following distribution of taxes within the civil aviation industry would appear to be reasonable: 70 percent of the 50 percent civil aviation portion of the FAA's budget—35 percent of the total budget—to be recovered from airline ticket taxes and air freight waybill taxes; and 30 percent of the 50 percent civil aviation portion of the FAA's budget—15 percent of the total budget—to be recovered from general aviation fuel taxes.

With the foregoing general principles for user taxes as guidelines, we propose the following specific user taxes.

Mr. Richardson will now give you our ideas on the specifics of application of those principles to specific user taxes.

Mr. **RICHARDSON**. The fuel tax should be no more than 5 cents per gallon until such time as the surplus in the Airport and Airway Trust Fund reaches a level of approximately $500 million. At such time, a different aviation fuel tax commensurate with the need to sustain a logical level of funding for the trust fund, taking into consideration other sources of revenue as per the foregoing user tax general principles, may be imposed.

There should be no differentiation in the tax per gallon as between jet fuel and aviation gasoline. A special fuel tax exemption for certain types of helicopter operations should be provided for as set forth in appendix A.

The air passenger transportation tax should remain at 5 percent until such time as the surplus in the trust fund reaches approximately $500 million. This tax could then be adjusted in accordance with the foregoing general principles.

At the same time as the surplus in the trust fund reaches $500 million, the air freight waybill tax could be reinstated at the level in effect as of September 30, 1980. There should be no reinstatement of the vehicle excise or registration taxes.

The Airport and Airway User Trust Fund should be removed from the Unified Federal Budget so that withdrawals will not be considered as expenditures chargeable against the general budget of the Treasury.

The trust fund should be used only to defray FAA costs as provided in the Airport and Airway Development Act of 1970, that is, funding aid for airport/heliport development, ADAP, capital expenditures for airways and air traffic control facilities, F. & E., and research and development, R. & D., and associated demonstration projects.

The FAA should be authorized and directed to transfer to NASA funds allocated to it from the trust fund in the field of R. & D. in cases where NASA may be equipped and staffed more efficiently to carry out specific R. & D. tasks.

Additionally, Airport and Airway Trust Funds should be made available to provide investment incentives or user tax credits to encourage civil aviation users to acquire advanced airborne air traffic control equipment which will contribute to increased safety and efficiency in the national air transportation system.

The trust fund should not be used to defray maintenance and operations, M. & O., costs of the FAA. These costs should be defrayed entirely from the general revenues of the Treasury in recognition of the national benefits and military value of the airport/airways system as discussed previously.

Mr. Chairman, on behalf of this Assocation, I appreciate the time afforded to express our views on the important question of aviation user taxes. We shall be most pleased to consult with you or your committee members, or the staff, in more detail on our positions as expressed in this statement.

[The prepared statement follows:]

STATEMENT OF ROBERT A. RICHARDSON, EXECUTIVE DIRECTOR, AND GLEN A. GILBERT, CONSULTANT, HELICOPTER ASSOCIATION INTERNATIONAL

SUMMARY

This testimony reflects the views of the civil helicopter industry of the United States in relation to user taxes and expenditures from the Trust Fund created by the Airport and Airway Development Act of 1970, as amended. It also addresses this industry's views on dealing with the current surplus in the Trust Fund and how Trust Fund income should be treated in the future. A fuel tax exemption is recommended for certain types of helicopter operations engaged in natural resource exploration and recovery. Several proposed specific modifications to H.R. 2643 as reported from the House Committee on Public Works and Transportation, May 19, 1981, are contained as a matter for the record in Appendix "B" of this statement.

BACKGROUND

The Helicopter Association International (HAI), formerly called the Helicopter Association of America (HAA), is an independent, non-profit organization, the membership of which consists of all the helicopter (rotorcraft) manufacturers of the United States as well as just about all the major operators of helicopters in this country.

HAI members operate in the fields of agriculture, airlines, air-taxi, construction, executive transport, law enforcement, energy exploration, rescue, logging and in many other civil applications. A more detailed breakdown of these applications is contained in Appendix "C" of this statement.

During the past ten years, the civil helicopter industry has been the fastest growing element of civil aviation in this country. Growth has averaged more than 12 percent per year. In 1980, the industry employed over 75,000 people in helicopter manufacturing and operation. It manufactured some 1,200 helicopters, operated over 8,000 helicopters in the United States alone, and the export value of its products contributed significantly to this country's balance of trade. Gross revenue for 1980 exceeded one billion dollars. By 1990, the goal of the U.S. helicopter industry is to have 20,000 or more helicopters in operation, with an annual industry revenue well over three billion 1980 dollars.

User Taxes—General

1. In any assessment of airport/airway user taxes to be levied directly on civil aviation, due consideration should be given to the general public benefits derived from having a reliable national air transportation system. Our air transportation system should be recognized as a national asset, which must be preserved at all costs in the national interest. Punitive or burdensome direct user taxes on the civil aviation community could lead to serious degradation of this system. They also could lead to a diminishing demand for aircraft by users, which, in turn, would impact negatively on our aircraft manufacturing industry and result in loss of this country's leadership in the world-wide field of civil aviation.

2. It should be recognized that the national airport/airway system operated by the Federal Aviation Administration serves the common civil/military air traffic mix as specifically provided for in the Federal Aviation Act of 1958. Civil user charges for this system should not be gased solely on the ratio of any current civil/military traffic count, but also on the potential military value of the system in time of national emergency as well as its continuing national security and general public benefits (see Appendix "A" for helicopters).

3. During the past decade a number of studies have been conducted under the auspices of the Department of Transportation and others as to what should be the "public benefit" share of the FAA's budget. These have ranged from the DOT's finding of "no unique public benefit" to more than 50 percent as evidenced by actual distribution of general revenue and user tax revenue as approved by the Congress. We consider that now is the time for this question to be definitely settled as we move, presumably, into the second decade of airport/airway user tax legislation.

4. Therefore, we strongly urge the Congress to mandate in the companion tax legislation to the "Airport and Airway Improvement Act of 1981," that the public benefit portion of the FAA's annual budget shall be considered as being 50 percent and the civil user portion 50 percent. This would mean that the public benefit of 50 percent would be derived from the general revenues of the Treasury and the other 50 percent from civil user taxes.

5. Once this principle is firmly established, it would then be a matter of simply reviewing FAA's budget, about every two years, to determine the amount to be raised from direct civil user taxes. If, at the end of each review period, the uncommitted balance is projected to be more than the reserve amount stipulated by the user tax legislation (Perhaps $500 million), user taxes would then be reduced accordingly. If the balance is projected to be less than the stipulated reserve, user taxes would be raised accordingly.

6. Assuming that the 50-50 principle is estimated along the lines outlined, it is obvious that some sort of formula is needed to determine the allocation of the 50 percent civil user tax portion of the FAA budget as between the different components of the civil aviation user community. In this context, I should like to point out some basic considerations which I believe should be considered in developing such a formula:

(a) All scheduled airline flights operate at all times within the FAA's air traffic control system. They always fly on IFR (Instrument Flight Rules) flight plans and are subject to IFR separation criteria in all weather conditions, good or bad. They are major users of the system. To a large extent, the federal airport and airway system has been developed specifically to meet the needs of scheduled airlines. I am not criticizing this situation at all. I am merely pointing it out as a fundamental factor in considering the distribution of user taxes within the various segments of the industry.

(b) General aviation, the other basic segment of the civil aviation users, has many variations as to its needs for, and use of, the FAA traffic control system. Some, such as business aircraft, use the system in the same manner as do the airlines. Others, such as private flyers, may not use it at all. In the case of helicopter operators, we may not use any FAA facilities in remote area and many offshore activities. In other helicopter applications, such as in business/corporate operations, we may use the airport/airway system fully, or just partially.

(c) With the foregoing facts in mind, the following distribution of taxes within the civil aviation industry would appear to be reasonable:

70 percent of the 50 percent civil aviation portion of the FAA's budget (35 percent of the total budget) to be recovered from airline ticket taxes and air freight waybill taxes; and

30 percent of the 50 percent civil aviation portion of the FAA's budget (15 percent of the total budget) to be recovered from general aviation fuel taxes.

User Taxes—Specific

With the foregoing general principles for user taxes as guidelines, we propose the following specific user taxes:

1. The fuel tax should be no more than five cents per gallon until such time as the surplus in the Airport and Airway Trust Fund reaches a level of approximately $500,000,000. At such time, a different aviation fuel tax commensurate with the need to sustain a logical level of funding for the Trust Fund, taking into consideration other sources of revenue as per the foregoing user tax general principles may be imposed. There should be no differentiation in the tax per gallon as between jet fuel and aviation gasoline. A special fuel tax exemption for certain types of helicopter operations should be provided for as set forth in Appendix "A."

2. The air passenger transportation tax should remain at 5 percent until such time as the surplus in the Trust Fund reaches approximately $500,000,000. This tax could then be adjusted in accordance with the foregoing general principles.

3. At the same time as the surplus in the Trust Fund reaches $500,000,000, the air freight waybill tax could be reinstated at the level in effect as of September 30, 1980. There should be no reinstatement of the vehicle excise or registration taxes.

Trust Fund

1. The Airport and Airway User Trust Fund should be removed from the Unified Federal Budget so that withdrawals will not be considered as expenditures chargeable against the general budget of the Treasury.

2. The Trust Fund should be used only to defray FAA costs as provided in the Airport and Airway Development Act of 1970, i.e., funding aid for airport/heliport development (ADAP), capital expenditures for airways and air traffic control facilities (F&E), and research and development (R&D) and associated demonstration projects.

3. The FAA should be authorized and directed to transfer to NASA funds allocated to it from the Trust Fund in the field of R&D, in cases where NASA may be equipped and staffed more efficiently to carry out specific R&D tasks.

4. Additionally, airport/airway trust funds should be made available to provide investment incentives (or user tax credits) to encourage civil aviation users to acquire advanced airborne air traffic control equipment which will contribute to increased safety and efficiency in the national air transportation system.

5. The Trust Fund should not be used to defray maintenance and operations (M&O) costs of the FAA. These costs should be defrayed entirely from the general revenues of the Treasury in recognition of the national benefits and military value of the airport/airways system as discussed previously.

Mr. Chairman, on behalf of this Association, I appreciate the time afforded to express our views on the important question of aviation user taxes. We shall be most pleased to consult with you or your committee members, or the staff, in more detail on our positions as expressed in this statement.

APPENDIX "A"

EXEMPTION.—Section 4041 of the Internal Revenue Code of 1954 (relating to tax on special fuels) is amended by redesignating subsections (i) and (j) as subsections (j) and (k) and by inserting after subsection (h) the following new subsection:

"(i) EXEMPTION FOR CERTAIN USES.—Under regulations prescribed by the Secretary, no tax shall be imposed under this section or any liquid sold for use or used in a helicopter for the purposes of—

"(1) the planting, cultivation, cutting or transportation of, or caring for, trees (including logging operations), or

"(2) transporting individuals, equipment, or supplies in the exploration for, or the development or removal of, natural resources;

provided that both the origin and destination airports/heliports of the helicopter flight involved are facilities which do not receive assistance under the Airport and Airway Development Act of 1970."

REFUND OF TAX.—Subsection (d) of section 6427 (relating to fuels not used for taxable purposes) is amended—

(1) by inserting "or is used in a helicopter for a purpose described in section 4041(i)," after "section 4041(h)(2)(C)," and

(2) by inserting "or in Certain Helicopters" after "Museums" in the caption thereof.

APPENDIX "B"

COMMENTS ON H.R. 2643

GENERAL

This Association considers that H.R. 2643 ("Airport and Airway Improvement Act of 1981") as reported by the House Committee on Public Works and Transportation on May 19, 1981, is generally acceptable. We are particularly pleased to note that the term "Reliever heliport," Sec. 3(19), has been retained from the previous H.R. 6721. However, we regret that the provisions of Sec. 7(e)(D)(4) of the Aviation Subcommittee version of March 19, 1981, regarding the availability within ADAP funding of not less than $7,500,000 for reliever heliports through September 30, 1985, has been deleted. We strongly urge that this provision be reinstated. In addition, we have several other specific recommendations regarding this Act which I shall now enumerate.

SECTION 5(C)

Airway facilities and equipment (F. & E.)

Helicopter operations, for maximum efficiency and safety, require facilities and equipment which will provide highly accurate navigation and adequate communication services at low altitudes and in remote areas, as well as permit instrument approach capability at virtually an infinite number of locations on the surface. It is for these reasons that emphasis is stressed by the helicopter industry on R&D to develop civil application of the Defense Department Navstar GPS satellite system (refer to items 1–4 of Attachment to this Appendix). F&E funding for civil operational equipment of this system could presumably commence in the next few years.

For fiscal year 1982, however, we urge that the FAA's appropriation authorization for F&E include expansion of conventional communications facilities for offshore helicopter operations (e.g., Gulf of Mexico) and in remote areas (e.g., Alaska and

Appalachia). We also believe that existing limited capability automatic weather reporting equipment would enhance safety and efficiency in offshore and remote area operations, and that certain existing navigation aids, such as MLS, would support increased efficiency of helicopter operations in congested traffic areas (e.g., the Northeast Corridor). For this type of F&E, we recommend that FAA funding in fiscal 1982 make provision for an expenditure in the order of $10,000,000.

SECTION 5(d)

Research, Engineering and Development, and Demonstration

The U.S. helicopter industry is a strong supporter of the FAA's helicopter research and development efforts. In fact, a workshop was conducted jointly by this Association and the FAA in the fall of 1979 to structure an updated and expanded FAA helicopter R&D program. The industry is generally satisfied with this program, except we do not think that it has been adequately funded to achieve effectively the desired objectives. The industry also works closely with NASA in its rotorcraft program. In this regard, last December this Association and NASA held a joint rotorcraft advance technology workshop. But more needs to be done by the FAA (as well as NASA) if the potential national benefits which can be derived from helicopters are to be realized.

At this point, I wish to stress that we feel the FAA and NASA should closely coordinate their activities in the field of helicopter (rotorcraft) research, development and engineering to the end that these activities complement, not duplicate, each other. With this objective as a guideline, this Association recommends that in the language in H.R. 2643 the FAA be specifically authorized and directed to assign appropriate tasks within its helicopter (rotorcraft) R&D program to NASA and in turn transfer to NASA such of the trust funds for R&D it receives as may be needed to accomplish these tasks. Examples of the kinds of tasks we have in mind which NASA might advantageously pursue in consonance with the FAA and thus in furtherance of the national interest, could include development of an integrated program for civil aviation application of the DOD Navstar GPS satellite system; participation in the development of an advanced, new generation ATC system less dependent on the present ground-based man-intensive concept and with more capability in the cockpit to permit the pilot to enhance airspace utilization; structuring research and prototying of advanced technology rotorcraft (and other VTOL's) with ultimate FAA certification critieria in mind.

Therefore, we consider that the appropriation authorization contained in Sec. 5(d)(B) is inadequate. Our recommended Fiscal Year 1982 funding for the FAA for helicopter R&D is $18,050,000 in outside contract activity, breakdown of which is shown in the Attachment to this Appendix. To administer this program, we estimate that about $2,000,000 would be needed for FAA in-house R&D personnel, making a total in the order of $20,000,000.

(Note: Although this program relates directly to helicopters, several of the elements apply to civil aviation in general.)

Consequently, we recommend that Sec. 5(d)(B) be expanded by adding (vi) after subparagraph (v), to read as follows: "(vi) $20,000,000 for helicopter development purposes;"

(The present subparagraph (vi) should then be changed to (vii).)

SECTION 23

We strongly urge that the study provided for in Section 23 by significantly broadened in scope with respect to air traffic control in general. The present system is exceedingly man-intensive, requiring a constantly expanding controller force. The pilots do not have the capability to participate with the controllers in the air-to-air separation assurance (collision avoidance) decision making process. The current navigation and communication facilities have many inherent deficiencies. The existing system is not global in scope. U.S. air transportation is now being restricted due to air traffic control system limitations. It is high time that the air traffic control system be drastically overhauled and modernized to meet air transportation challenges of the future.

Therefore, it is recommended that Sec. 23(a) be expanded by adding subparagraph (b) to read somewhat as follows:

"(b) The Secretary shall conduct a study to develop a detailed plan for an advanced (fourth generation) air traffic control system best calculated to meet the needs, by the end of this decade and beyond, of all segments using the nation's common civil-military air traffic control system. Such a modernized air traffic control system shall be predicated the use of the most advanced technology, both on the ground and in the aircraft, including the potential application of satellites as the system's core element. The Secretary shall complete such study and report his findings to Congress not later than one year after the date of enactment of this Act."

(The present subparagraph (b) should then be changed to (c).)

SECTION 24(b)

Because of the growing importance of helicopters and their frequent use of conventional airports, we recommend that Sec. 24(b) be expanded by adding after item (10): "(11) helicopter operators"

Change present (11) and (12) to (12) and (13), respectively.

Recommended fiscal year 1982 FAA funding authorization for helicopter R. & D.

Item	*Amount (thousands)*
1. Concept Validation of Civil Application of Navstar/GPS (GPS 4-D area navigation, differential GPS, airborne separation assurance, data link communications, automatic position reporting)	$5,000
2. Communications (especially for helicopter low-flying and remote area operations) (also referenced to item 1. above)	750
3. Advanced ATC System based on Distributed Management Concepts (also referenced to item 1. above)	600
4. Zero-Zero Helicopter Approach and Landing Capability (also referenced to item 1. above)	650
5. Weather (automatic low-cost reporting equipment); Ice detection, icing forecasting	525
6. All-Weather Heliport Development	425
7. Helicopter IFR Certification (including improved propulsion technology for single engine out (SEO) operation)	1,800
8. Helicopter Anti-Icing/De-Icing Capability	2,700
9. Helicopter Noise, Vibration, Emission Pollution Reduction	5,000
10. Helicopter Crashworthiness	600
Total	18,050

NOTE.—As indicated in the text of the accompanying statement, it is contemplated that a number of the foregoing projects or portions thereof would be transferred by the FAA to NASA accompanied by an appropriate transfer of funds.

APPENDIX "C"

HELICOPTER APPLICATIONS

A broad categorization of the services provided by helicopters in the national interest involves Quality of Life, Economics, Public Safety and National Security. The more detailed breakdown which follows amplifies this categorization:

1. Public Service:

a. Law Enforcment—Drug; Security/Surveillance; Search; Patrol/Observation; Pursuit; Command Post/Crowd Control; Pollution Control; Transport (people).

b. Public Safety—Emergency Medical Service (EMS); Fire Rescue/Fighting; Search (lost people); Water Area Patrol; Traffic.

c. Disaster Warning/Relief/Rescue.—Flood; Frost/Freeze/Snow; Large Scale Mountain Timber Fires; Shipwreck; Other: Hurricane, Tornado, Earthquake, Landslide, Avalanche, Drought, Volcano.

d. Search and Rescue—Mountain; Ocean; Aircraft Accidents.

e. Wildlife Management—Animals/Fish.

f. Environmental Surveys—Fish/Oil/Dams.

g. Environmental Transport—Poles/Wires/Pipe/Cable/Construction; Transport (people).

2. Public Transportation:

a. Scheduled—Large; Medium/Small.

b. Non-scheduled—Large/Medium; Small (Air Taxi).

3. Corporate/Executive Transportation:

a. Part 91—People; Cargo/Mail.

4. Energy Exploration/Production: a. Offshore Support. b. Pipeline Laying. c. Powerline Laying. d. Aerial Surveys.

5. Construction: a. Crane. b. Cargo. c. Wire Stringing. d. Pole Laying.

6. Cargo: a. External Lift. b. Internal Lift.

7. Agriculture/Forestry: a. Spraying. b. Seeding. c. Logging. d. Surveys.

8. Other Business/Commercial: a. Bank Record Transfer. b. TV Reporting (ENG). c. Photography. d. Advertising. e. Real Estate Evaluation. f. Sight Seeing. g. Mapping.

9. Flight Training/Personal Use.

STATEMENT OF DANIEL J. SPIGAI, CHAIRMAN, AIRPORTS ADVISORY COUNCIL, AMERICAN ROAD & TRANSPORTATION BUILDERS ASSOCIATION, ACCOMPANIED BY DANIEL J. HANSON, SR., PRESIDENT

Mr. SPIGAI. Thank you, Mr. Chairman. My name is Daniel Spigai. I am here representing the American Road & Transportation Builders Association [ARTBA], in my capacity as chairman of the Association's Airport Advisory Council. With me today is association president, Mr. Daniel J. Hanson, Sr.

I would like to ask the Chair to submit our full statement for the record and briefly highlight our chief concerns.

The airport and airways program is a matter of vital concern and interest to our more than 5,000 members. According to the national airport system plan, we need to invest a total of more than $12 billion to expand the system in the next decade. Also, we need to invest more than $8 billion in airways facilities and equipment in this same decade.

Against these acknowledged needs, the 1980 Budget Reconciliation Act sets a ceiling of $600 million for the airport development aid program in fiscal year 1982. We feel that the day of reckoning for fiscal austerity has been postponed for far too many years and there can be little doubt we are faced with the necessity of increasing capital investment in both airport improvement and airways traffic control.

With regard to the airports and airways trust fund, we strongly support the reestablishment of the user fees for the fund. The trust fund, we feel, is by far the most appropriate way to fund programs where long-range commitments and stability are important.

Looking at recent history, we urge that safeguards be developed in order to ensure that these revenues are deposited in the trust fund and can be used within a reasonable timeframe for their intended purposes.

In view of the very substantial capital needs of the airports and airways program, we support the administration's recommendation that the airline passenger ticket fee be set at the 6.5 percent level and deposited in the fund. However, we can see no justification whatsoever for the very large increases in aviation fuel user charges on the scale proposed by the administration.

By directing all of the funds into the airport and airways trust fund, Congress will be giving recognition to the fact that these revenues will be urgently needed for the program as soon as the budget situation makes full-scale resumption of the program possible.

In proposing the higher levels of user charges for aviaton users, the administration has taken a position that these users should bear the full cost of civil aviation programs. The administration's aviation bill submitted earlier this year would provide an unwarranted increase, in our opinion, in the trust fund contribution to the FAA operating account.

While we agree that it is appropriate to use the airport and airways trust fund and its user-trust mechanism to support some percentage of the FAA's operating account, we feel at the same time it is absolutely necessary to impose some clear and firm restrictions to that use. Otherwise, we will see the capital programs cut to the bone while operating and maintenance costs spiral upward.

H.R. 2643 would make the airport and airways trust fund responsible for as much as 50 percent of the FAA's O. & M. account. While we agree that this figure approaches a more reasonable level, we are very much disturbed to see operating costs increasing dramatically while capital investment is severely restricted.

In summary, we support the basic thrust of H.R. 2643. We share the view of the House Public Works and Transportation Committee that user charge levels should produce a balance between the trust fund revenues and expenditures.

We also need to gradually draw down on the fund's surplus. The current trust fund surplus is unwarranted, in our view, because of the extraordinary backlog of airport capital needs.

We thank you for the opportunity to comment.

[The prepared statement follows:]

Statement of the American Road & Transportation Builders Association

Mr. Chairman and Members of the Committee: My name is Daniel J. Spigai and I am a partner in the achitect-engineering firm of Howard Needles Tammen & Bergendoff. Today I am here representing the American Road & Transportation Builders Association in my capacity as chairman of ARTBA Airports Advisory Council. This Council has the responsibility of recommending airports policy to the ARTBA Board of Directors. Accompanying me today is ARTBA President Daniel J. Hanson, Sr.

ARTBA is a national association headquartered in Washington, D.C., dedicated to the long-range development and preservation of the national transportation system. Our members include transportation construction contractors, materials producers and suppliers, construction equipment manufacturers and distributors, planning and design professionals, and transportation officials at all levels of government.

The airports and airways program is a matter of vital concern and interest to all of our members. Its revitalization is also a matter of high national priority. We all need to put ourselves into a stronger position in order to accommodate the steady increase in air passenger and freight traffic projected for the future.

PRINCIPLES VERSUS PRACTICALITIES

The Airports and Airways Act of 1970 had many commendable features. It followed principles which are valid and basically applicable to all transportation development programs. In fact, this Committee and the Congress established the Airports and Airways Trust Fund after studying the experience of the Highway Trust Fund, which had been established in 1956. There is a strong degree of consistency between these two transportation trust funds.

Briefly stated, the following principles apply to both:

1. Federal capital investment in transportation facilities should be derived from user charges levied on the direct beneficiaries of the capital programs.
2. The costs of the capital program should be distributed as equitably as possible among the various classes of users, taking into account the benefits derived by each class.
3. Total program costs should be shared by the Federal, state and local governments. The Federal share of project costs should be related to the degree of national interest in the program relative to the state and local interest.
4. The Federal commitment should be authorized in advance on a long-range basis, in order that state and local entities can plan accordingly.
5. There should be a reasonably close relationship between trust fund receipts and expenditures. The trust fund should serve only as a mechanism to provide a stable and predictable flow of Federal financial support. It should not be used as a device for levying punitive taxes or for contributing to the general fund of the Treasury.

Although these principles were clearly understood in 1970, they have not always been followed in the implementation of the program. Over the years, the Airports and Airways Trust Fund developed a cash surplus of $2.9 billion, an obvious inequity. The objectives of the program have become subject to heated controversy. It is proposed, for example, that major hub airports be excluded from the program or "defederalized." The Trust Fund ceased to receive any new revenue, for want of a timely authorizations act on September 30, 1980.

Congress is now faced with the problem of putting the pieces back together in a time of severe fiscal austerity. We see the unhappy prospect of reductions in the program and, at the same time, a possibility of higher user charges. The notion that users should pay more to get less seems inconsistent with the Administration's economic program and, indeed, with the principles underlying the trust fund. These practicalities must be weighed heavily as we seek to adhere to the underlying principles of the trust fund.

DEFERRAL OF CRITICAL NEEDS

The House Committee Report on the 1981 Budget Reconciliation Act contains this extremely pertinent comment—(Vol. III, pp 99-100):

"We have fallen behind the needed rate of investment in (airports and air control system) to the point where the Department of Transportation and the Federal Aviation Administration are warning that they may be forced to constrain traffic growth in the next few years because of the saturation of runway and air traffic capacity. And we are at the beginning of a decade in which the number of air passengers is expected to double."

According to the National Airport System Plan, we need to invest a total of $12.67 billion to expand the system to accommodate increased demand over the period 1980-89. We also need to invest at least $8.5 billion in airways facilities and equipment in the next decade.

Against these acknowledged needs, the same Reconciliation Act sets a ceiling of $600 million for the Airport Development Aid Program in fiscal year 1982. We understand that the House Committee on Public Works and Transportation will propose legislation conforming with this ceiling.

The day of reckoning for this fiscal austerity has been postponed for far too many years. It should be noted, that one of the most serious grievances of the air controllers was an allegation that many controllers have to work with badly outmoded equipment. That problem is undoubtedly valid and will not be solved by training new air controllers.

There can be little doubt that we are faced with the dire necessity of greatly increasing the capital investment in both airport capital improvements and airways traffic control.

House bill, H.R. 2643, is a responsible bill with numerous excellent features. Section 4 of the bill, relating to national airport and airway systems plans, provides an excellent basis for a continuing evaluation and review of the financial requirements. We hope that it will prove to be the basis for periodic reviews of the funding mechanisms.

THE AIRPORTS AND AIRWAYS TRUST FUND

We strongly support the reestablishment of the user fees for the Airports and Airways Trust Fund. A trust fund is by far the most appropriate way to fund programs where long-range commitments and stability are important.

We make this statement in all sincerity and after taking into consideration the history of past abuses to which the transportation trust funds have been subjected. We urge that safeguards be developed in order to insure that revenues deposited in trust funds can be used, within a reasonable time frame, for their intended purposes.

In view of the very substantial capital needs of the airports and airways program, we support the Administration's recommendation that the airline passenger ticket fee be set at the 6.5 percent level, and deposited in the Airports and Airways Trust Fund. However, we can see no justification whatsoever for the very large increases in motor fuel user charges on the scale proposed by the Administration. By directing all of the funds into the Airports and Airways Trust Fund, Congress will be giving recognition to the fact that these revenues will be urgently needed for the program as soon as the budget situation makes full-scale resumption of the program possible.

PROTECTION OF CAPITAL PROGRAMS

In times of fiscal austerity, there is a tendency to defer capital investment. The argument that the construction of new facilities or the improvement of existing facilities can be put off for a few years is an expedient one at best and results in greater costs over the long term. Day-to-day operating costs, on the other hand, are much more difficulty to avoid.

One of the principal justifications for the Airports and Airways Trust Fund is that it constitutes a special source of funding for capital investment paid by the users. Since these capital programs impose no drain on the general fund of the Treasury they are, in theory, protected from the budget axe. This is an excellent theory. History has shown that there are obviously some problems when it comes to the true test. Additional safeguards must be built into the new legislation to avoid these problems in the future.

In proposing higher levels of user charges for aviation users, the Administration has taken the position that these users should bear the full cost of civil aviation programs, excluding that share of the cost attributable to military use. The Administration's aviation bill, submitted earlier this year, would provide an unwarranted increase, in our opinion, in the Trust Fund's contribution to the FAA operating account.

This amount would increase from $525 million in fiscal year 1981 to $2.35 billion by fiscal year 1985. ARTBA feels that this latter amount is excessive and should be limited to no more than $1.0 billion in any single fiscal year.

We are confronted with another conflict between principle and practicality. We agree that it is appropriate to use the Airports and Airways Trust and its user-charge mechanism to support some percentage of the Federal Aviation Administration's operating account. At the same time, it is absolutely necessary to impose some restrictions to that use. Otherwise, we will see the capital programs cut to the bone while operating and maintenance costs increase.

H.R. 2643 would make the Airports and Airways Trust Fund responsible for as much as 50 percent of the FAA's operations and maintenance account. In fiscal year 1982, the Trust Fund's contribution would be about $900 million. While we agree that this figure approaches a more reasonable level, we are very much disturbed to see operating costs increasing while capital investment is severely restricted.

SUMMARY

We support the basic thrust of H.R. 2643. We share the view of the House Public Works and Transportation Committee that user charge levels should produce a balance between Trust Fund revenues and expenditures. We also need to gradually draw down on the existing Trust Fund surplus. The current Trust Fund surplus is unwarranted in view of the extraordinary backlog of airport capital needs.

We deeply appreciate this opportunity to present the views of the American Road & Transportation Builders Association on this most important issue at this time. We commend the House Ways and Means Committee for your continuing interest and support of our Nation's transportation development programs.

Chairman ROSTENKOWSKI. Are there any questions of the witnesses?

Mr. Bailey will inquire.

Mr. BAILEY. One very quick request. The theme here is that it is a public benefit. If any of you can give information to me, I would be grateful to you, that will quantify, perhaps based on the hypothesis of the administration's proposal, the impact of their user fee and gasoline fee and jet fuel increases on the general public, let alone the public benefits that we all agree, military benefits and what not, that are derived, with some quantification of the impact of some of those increases. I am sure they would be detrimental. If you can do it—it is tough, I know. Thank you.

Chairman ROSTENKOWSKI. Thank you, gentlemen.

The committee stands adjourned.

[Whereupon, at 1:55 p.m., the hearing was adjourned.]

[The following was submitted for the record:]

WASHINGTON, D.C., *October 1, 1981.*

Hon. DAN ROSTENKOWSKI,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. ROSTENKOWSKI: This is to advise you that the Federal Express Corporation, Memphis, Tennessee, strongly opposes the Adminstration's recommendation to impose a 5 percent waybill tax on air freight services.

Historically, the passenger taxes have been 8 percent, with the waybill set at 5 percent. The re-imposition of a 5 percent waybill tax would represent no reduction in the taxation of air freight services and would probably result in the air cargo carriers paying for more than their fair share of the airport and airways system.

There is an historic disparity between the excise tax assessed upon air passenger and air freight services, because passenger transportation accounts for the vast bulk of total air transport revenues, and passenger services account for the preponderant majority of total air carrier operations. Passenger air transport operations are the primary users of the Nation's airports and airways, and the primary beneficiaries of federal expenditures to improve airport and airways facilities which are funded out of the Aviation Trust Fund. The relative demand placed upon the airport and airways system by passenger vs. freight operations is illustrated by the following:

1. During the fourth quarter of 1980, all-cargo service departures performed by the CAB-certificated all-cargo and combination carriers amounted to less than 1 percent of total departures performed by that group of carriers during that period (see Appendix A).

2. During The fourth quarter of 1980, all-cargo departures performed by all certificated carriers at the top 64 airports accounted for only 1.2 percent of all departures performed at those airports. The top 64 airports, in turn, accounted for 88 percent of all passengers enplaned and 75 percent of all departures performed during the fourth quarter of 1980 (see Appendix B)

3. Although the foregoing activity statistics do not include departures performed by any carriers which do not conduct operations pursuant to certificates of public convenience and necessity issued by the CAB, the inclusion of that data, if available, would add statistics applicable to hundreds of air taxi operators and a far smaller number of Section 418 all-cargo carriers, which would increase the indicated preponderance of passenger services over cargo operations.

Finally, the establishment of a lower rate of tax on the cost of air freight shipments produces a direct benefit to shippers, and an indirect benefit to the users of goods shipped by air, in the form of reduced transportation costs. Since transportation costs are ultimately borne by the consumer, and given the uncontrollable increases in air transportation costs due to energy prices and inflation, it is highly desirable to avoid any unnecessary increase in air freight taxes, unless such taxes are clearly required to meet a pressing public need.

In view of the surplus in the Aviation Trust Fund, and the relatively small contribution of any tax on air freight revenues compared to other sources, the establishment of the air freight waybill tax at a maximum rate of 2 percent is reasonable and justifiable. The Administration's proposal for a 5 percent cargo tax, on the other hand, is neither appropriate nor justified. In any event, it would be totally inequitable to reduce the historic ratio between passenger taxes and cargo taxes.

Sincerely,

JOHN L. ZORACK,
Counsel, Federal Express Corp., Memphis, Tenn.

Enclosures.

APPENDIX A

TOTAL DEPARTURES BY DOMESTIC CARRIERS, 4TH QUARTER, 1980

Carrier	Total departures	Passenger departures	All-cargo departures
Air California			
Airlift	61		61
Air New England	8,294	8,294	
Alaska	5,407	5,407	
Aloha	8,773	8,773	
American	73,647	71,853	1,794
Braniff	37,031	36,453	578

TOTAL DEPARTURES BY DOMESTIC CARRIERS, 4TH QUARTER, 1980—Continued

Carrier	Total departures	Passenger departures	All-cargo departures
Continental	26,041	26,041	
Delta	129,588	129,588	
Eastern	125,749	125,749	
Flying Tiger	4,286		4,286
Frontier	43,976	43,976	
Hawaiian	9,123	9,123	
Hughes Airwest	32,594	32,594	
Northwest	39,003	39,003	
Ozark	30,693	30,693	
Pan Am	21,663	21,534	129
Piedmont	41,200	41,200	
Republic	97,550	97,550	
Texas Intl.	23,445	23,445	
Trans World	54,079	54,079	
United	106,162	103,616	2,546
US Air	69,862	69,862	
Western	30,679	30,679	
Total	1,018,906	1,009,512	9,394

Note: Departures, 99.1 percent of total. All-cargo departures, 0.9 percent of total.

APPENDIX B

TOTAL DEPARTURES BY DOMESTIC CARRIERS, TOP 64 AIRPORTS—4TH QUARTER, 1980

Origin	Total departures	Passenger departures	Percent total	All-cargo departures	Percent total
ATL	66,057	65,797	99.6	260	0.4
BOS	20,735	20,490	98.8	245	1.2
CHI	60,704	58,461	96.3	2,243	3.7
CLE	10,906	10,725	98.3	181	1.7
DFW	38,134	37,389	98.0	745	2.0
DEN	36,932	36,743	99.5	189	.5
DTT	19,299	19,658	98.8	241	1.2
IAH	18,729	18,608	99.4	121	.6
MCI	11,221	11,279	100.0	2	
LAS	13,344	13,320	99.8	24	.2
LAX	28,542	27,405	96.0	1,137	4.0
MIA	16,683	16,590	99.4	93	.6
MSP	17,859	17,799	99.7	60	.3
JFK	15,749	14,767	91.2	1,782	8.8
LGA	25,304	25,304	100.0		
MSY	10,534	10,534	100.0		
EWR	12,164	12,044	99.0	120	1.0
PHL	13,704	13,527	98.7	177	1.3
PHX	12,930	12,927	100.0	3	
PIT	22,193	22,193	100.0		
STL	24,739	24,739	100.0		
SFO	21,144	20,266	95.8	878	4.2
SEA	13,819	13,440	97.3	379	2.7
TPP	13,593	13,593	100.0		
WAS	26,938	26,938	100.0		
ABO	4,445	4,445	100.0		
BAL	918	799	87.0	119	13.0
PHM	4,627	4,627	100.0		
PLF	7,528	7,528	100.0		
CLT	8,175	8,116	99.3	59	.7
CUG	7,191	7,130	99.2	61	.8
CMH	5,221	5,221	100.0		
DAY	4,871	4,871	100.0		

TOTAL DEPARTURES BY DOMESTIC CARRIERS, TOP 64 AIRPORTS—4TH QUARTER, 1980—Continued

Origin	Total departures	Passenger departures	Percent total	All-cargo departures	Percent total
ELP	3,229	3,229	100.0		
EDL	6,524	6,466	99.1	58	.9
IND	7,205	7,205	100.0		
JAX	3,685	3,685	100.0		
SDF	5,772	5,772	100.0		
MEM	12,952	12,952	100.0		
MKE	9,490	9,489	100.0	1	
PNA	6,750	6,750	100.0		
OPF	4,946	4,946	100.0		
OKC	3,497	3,496	100.0	1	
OMA	4,227	4,226	100.0	1	
ONT	1,651	1,643	99.5	8	.5
MCO	12,505	12,505	100.0		
PDX	6,685	6,548	98.0	137	2.0
RDU	4,310	4,310	100.0		
RNO	3,531	3,531	100.0		
ROC	4,221	4,221	100.0		
SMF	2,549	2,549	100.0		
SLC	8,659	8,659	100.0		
SAT	4,345	4,345	100.0		
SAN	5,274	5,274	100.0		
SJC	2,186	2,185	100.0	1	
GEG	3,979	3,976	99.9	3	.1
SYF	3,259	3,200	98.2	59	1.8
TUS	4,191	4,191	100.0		
TUL	3,644	3,644	100.0		
PEI	5,109	5,109	100.0		
Total	759,967	759,979	98.8	8,988	1.2

FEDERAL EXPRESS HIGHLIGHTS

Federal Express is the only air express service in the world specializing in the transportation of small packages and documents.

Federal Express covers markets accounting for more than 90 percent of all air freight activity in the United States.

Federal Express operates a network of 154 stations providing door-to-door service to more than 240 major markets and 13,500 communities.

Federal Express completely controls a shipment from pick-up to delivery because it uses only company-owned or leased equipment.

In contrast to air freight forwarders, Federal Express owns and operates its own fleet of aircraft. It has put into service three of the four McDonnell Douglas DC-10s it has agreed to purchase from Continental Airlines. The fleet also is comprised of 23 Boeing 727s and 32 Falcon Fanjets. In the next three years, the company will be taking delivery on 15 additional 727s it has agreed to purchase from Eastern Air Lines. The company also operates more than 2,500 radio-equipped vans, which pick up and deliver shipments.

Federal Express carries more than 22 million domestic shipments annually—more than Emery Air Freight, world's largest freight forwarder, and more than the next four largest freight forwarders combined.

Federal Express has more than 290,000 customers, including a majority of the Fortune 500 companies.

The likelihood of a shipment being lost, stolen or damaged by Federal Express is 4,500 to 1.

Federal Express' claim rate is only 0.22 percent of revenue, compared with the airline industry average of 0.75 percent of revenue.

Federal Express became a publicly held company on April 12, 1978, when its first stock issue went on sale over the counter. The stock split 2-for-1 in September; and on December 28, 1978, was listed on the New York Stock Exchange.

STATEMENT OF FRANCIS B. FRANCOIS, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Founded in 1914, AASHTO represents the departments concerned with highways and transportation in the states, the District of Columbia and Puerto Rico, to foster the development, operation and maintenance of an integrated national transportation system. The active members of AASHTO are the duly constituted heads and other chief directing officials of the member highway and transportation agencies.

Mr. Chairman and members of the House Committee on Ways and Means, the American Association of State Highway and Transportation Officials is very much concerned about the nation's aviation system and the future of the Airport Development Aid Program (ADAP) and the Aviation Trust Fund. We appreciate this opportunity to provide our views for the record on the subject.

For the record, the American Association of State Highway and Transportation Officials (AASHTO) is an association whose membership includes the departments of transportation and highways of the States, the District of Columbia and Puerto Rico. The policies presented in this statement were approved by our Standing Committee on Aviation, and subsequently approved by our Policy Committee, which requires an affirmative vote of at least two-thirds of the chief administrative officers of these departments.

We would first like to take this opportunity to note our deep concern over the fact that the Airport and Airway Act of 1970, as amended, was permitted to expire on September 30, 1980. The States believe that it is extremely important the act be continued, since airport development is essential to the vitality of the economy of our nation and its transportation system. As you know, this act is the only source of federal aid for airport development. We therefore urge the timely passage of legislation continuing the Aviation Trust Fund and taxes.

AASHTO supports the continuation of the Airport and Airway Trust Fund in the years following fiscal year 1981. The States believe strongly in the continuation and strengthening of a program to develop and maintain the nation's system of airports and airways. While much of the other facets of our transportation system are for the most part already in place, the air transport system continues to need further development.

AASHTO believes that the level of Airport Development Aid Program funding should be increased for the post-1981 program. Current needs and those projected for the future are such that increased funding will be necessary to preserve the existing system and provide the level of safety in air travel which the public deserves. We feel that these two areas, safety and system preservation, should be emphasized early in the continuing program, with capacity expansions receiving increased attention later in the program when the primary concerns are substantially met. Funding should be based on system needs, taking into consideration the financial needs of airports and communities.

The level of ADAP funding increases should reflect the need to utilize the current Trust Fund surplus. Given the current level of inflation, particularly as it applies to construction costs, which have inflated much more rapidly than the overall cost of living, the buildup and continuation of surplus Trust Funds is undesirable. As you know, the continued holding of funds in inflationary periods can rapidly reduce their value in terms of constant dollars. For the record, we would mention that we support an increase in FAA Operations and Maintenance funds appropriated from the Trust Fund, up to but not exceeding the level of funding for the airport system capital improvement program.

AASHTO does not support a reduction in the taxes collected for the Trust Fund. The goals of the Trust Fund are of such importance and significance that consideration should not be given to a reduction in revenues until substantially more progress toward meeting these goals has been made. At the same time, we believe that levies on General Aviation could remain at the rates which existed under the 1970 Airport and Airway Development Act, as amended. This would provide a balance between allocable costs and revenue sources.

In summary

AASHTO supports continuation of the Airport and Airway Trust Fund.

AASHTO believes that the present level of ADAP funding should be increased to meet current and projected needs, with additional annual increases to counteract inflation of construction costs.

The Aviation Trust Fund surplus should be utilized in an expedient manner to avoid further reductions of its usefulness by inflation.

Reduction of Aviation Trust Fund revenues should not be considered until substantially more progress is made toward meeting its goals.

Levies on General Aviation could remain at levels established by the 1970 Act, as amended.

STATEMENT OF DELFORD M. SMITH, CHAIRMAN OF EVERGREEN HELICOPTERS, INC., MCMINNVILLE, OREG.

My name is Delford M. Smith. I am chairman of the board of Evergreen Helicopters, Inc, of McMinnville, Oregon, and a member of the board of directors of the Helicopter Association International.

I would like to take this opportunity to bring to your attention an issue of particular importance to Evergreen Helicopters and other companies engaged in tree farming and timber harvesting with helicopters.

Evergreen uses its helicopters in all phases of tree farming, including: seeding, fertilization, spraying for disease, insect control, fire control, timber thinning and timber harvesting. The use of helicopters supplements conventional logging methods, allowing the harvesting and thinning of timber in otherwise inaccessible mountainous terrain. Helicopter logging also permits harvesting of trees when conventional methods might harm the environment. It does not require extensive road building and it allows more forest land to be retained for cultivation. After harvesting, the land is restored to its natural condition.

In our tree harvesting operations, we use helicopters to move logs from roadless forest areas to cleared staging areas where they can be loaded onto trucks. We construct these staging areas and temporary helicopter pads ourselves. While logging, we remove from our helicopters the VHF radios used for federal aviation navigation communications and instead equip the helicopters and our logging crews with industrial-use, short-wave radios. We refuel the helicopters by transporting jet fuel in our own trucks to the temporary helicopters. At no time during our helicopter logging operations do we use or rely upon any public or private airport or communications facility. In fact, the helicopters operate at a maximum altitude of only 500 feet and rarely venture more than a half mile from the logging site.

The Airport and Airway Revenue Act of 1970 imposed a seven-cent per gallon tax on fuel used by noncommercial aviation as a means of allocating to general aviation its share of the costs for using the federal airport and airway system. The legislative history indicates that Congress intended to impose this excise tax only on fuel used by those aircraft that actually use the system. To this end, Congress exempted from this tax aviation fuel used in farming. The farming exemption was intended to take care of the farmer who was not utilizing government facilities by exempting him from paying the tax on aviation fuel used solely in his farming operations.

But unfortunately, the farming exemption in the 1970 act relied on the Internal Revenue Service's definition of farming. In 1970, there was no use of helicopters in tree farming—helicopters began being used in 1971. The IRS has refused to consider the cultivating and harvesting of timber as farming, even though trees are an agricultural crop fully as much as wheat, corn, oats, etc. The IRS applies the farming exemption to nurseries and Christmas tree farms, but not to timber harvesting.

Evergreen and other helicopter logging companies have repeatedly filed claims with the IRS seeking refund of the excise taxes paid on aviation fuel used solely in timber farming, but the IRS has refused the refunds. The matter has also been unsuccessfully pursued in the courts. It appears that legislative clarification is our only alternative.

We urge this committee to correct this unfair situation by including in the Airport and Airway Revenue Act of 1981 a provision that would clearly exempt from the excise tax aviation fuel used in helicopter logging—an activity that makes no use of the federal airport and airway system. We have no problem with paying our fair share of user taxes when we use the federal system, which we do in many of our other helicopter operations, but we do not believe we should pay a user tax on fuel for helicopters that stay for months at a time in remote mountain areas far from any federal facilities.

I would also like to note that part of the savings through elimination of the fuel tax will inevitably be passed on to the federal government through higher bids for timber on federal lands. Much of the timber we harvest is purchased by bid from the United States Forest Service of the Department of Agriculture.

We are including for your consideration suggested language amending the Internal Revenue Code that will eliminate the fuel tax problem of helicopter loggers (Attachment A).

Thank you for this opportunity to present our views.

EXEMPTION.—Section 4041 of the Internal Revenue Code of 1954 (relating to tax on special fuels) is amended by redesignating subsections (i) and (j) as subsections (j) and (k) and by inserting after subsection (h) the following new subsection:

"(i) EXEMPTION FOR CERTAIN USES.—Under regulations prescribed by the Secretary, no tax shall be imposed under this section on any liquid sold for use or used in a helicopter for the purpose of the planting, cultivation, cutting or transportation of, or caring for, trees (including logging operations)."

REFUND OF TAX.—Subsection (d) of section 6427 (relating to fuels not used for taxable purposes) is amended—

(1) by inserting "or is used in a helicopter for a purpose described in section 4041(i)," after "section 4041(h)(2)(C),", and

(2) by inserting "or in Certain Helicopters" after "Museums" in the caption thereof.

GERBER PRODUCTS CO.,
Fremont, Mich., October 14, 1981.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Gerber Products Company operates a number of business aircraft. With major facilities in nineteen states, this method of transportation is a most necessary part of the company's day-to-day operation.

The Administration's aviation excise tax proposals would greatly increase operating costs at a time when inflation appears to be moderating. These higher taxes are unnecessary. The Airport and Airway Trust Fund already contains a surplus created by the users of aviation. Aviation is more than paying its share and no other Federally-supported mode of transportation is being asked to pay taxes and user charges sufficient to recover 85 percent of all capital, operating and maintenance costs.

Noncommercial aviation operators are willing to pay their fair share. Gerber Products would support a uniform aviation fuels tax of 8½ cents per gallon which would meet the goals of any foreseeable program for airport and airways development.

We urge the Committee on Ways and Means to reject the aviation fuel tax proposals outlined in the Committee's press release of September 28, 1981. In our view, their enactment would likely result in the loss of jobs and tax revenues through reduced sale of aircraft, equipment and fuel.

We would appreciate this letter being included in the printed record of the Committee's hearings on this subject.

Sincerely,

EUGENE J. HARDY,
Washington Representative.

OMAHA AIRPORT AUTHORITY,
Omaha, Nebr., October 9, 1981.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: Please enter this statement into the record of the hearing to be held on October 14, 1981 regarding legislative proposals relating to aviation excise taxes and the Airport and Airway Trust Fund.

We have long been a staunch advocate of the concept of "defederalization" of the larger airports. My testimony in support of such legislation before the Senate Aviation Subcommittee on September 13, 1979 is attached. That testimony sets forth our rationale for that position and is still valid today.

Basic to our position is the promise of a substantial reduction in the tax burden to be borne by the flying public. We advocate the elimination of the passenger ticket tax or at the very least the reduction of that tax to the bare minimum required to support an aid program for the small and non-hub airports. Federal Aviation Administration operating costs should be funded from the general fund.

We have demonstrated our resolve by withdrawing from the Airport Development Aid Program pursuant to the resolution of our governing body, a copy of which it attached hereto. We urge that the committee on Ways and Means demonstrate its stewardship by developing and pressing for passage of Aviation user tax legislation at levels much lower than exist today.

If we can be of any assistance in reaching the goal of reduced taxation for aviation, please advise.

Sincerely.

RONALD B. GREAR,
Executive Director.

EXCERPT FROM THE MINUTES OF THE TWO HUNDRED EIGHTY-NINTH MEETING OF THE AIRPORT AUTHORITY OF THE CITY OF OMAHA

Mr. Theisen moved adoption of the following resolution:

Whereas, the U.S. Congress recently passed a bill extending the Airport Development Aid Program (ADAP) for one year through September 30, 1981; and,

Whereas, the Omaha Airport Authority favors discontinuation of the ADAP and the higher user taxes with which it is funded and has actively supported legislation to defederalize large and medium hub airports and greatly reduce or eliminate those high user taxes levied on air transportation; and,

Whereas, the already oppressive regulations which have accompanied federal grants are expanded even further in the extended program creating massive additional record keeping and reporting requirements unrelated to the safety or efficiency of air transportation; and,

Whereas, air traffic in Omaha, both commercial and general aviation, has declined sharply the last two years in response to economic conditions and the negative impact of airline deregulation, thereby deferring the need for additional facilities, now, therefore, be it

Resolved by the members of the airport authority of the City of Omaha: That the Executive Director is hereby instructed to withdraw the preapplication for Airport Development Program grant funds previously submitted to the Federal Aviation Administration.

Mr. Morgan seconded the motion.

Rollcall: Voting yes: Mr. Cassman, Mrs. Clark, Mr. Morgan, Mr. Theisen. Voting no: None.

I hereby certify that the above resolution is a true and correct copy of the resolution duly adopted by the Airport Authority of the City of Omaha at a regular meeting held on September 18, 1981.

RONALD B. GREAR,
Assistant Secretary.

TESTIMONY OF RONALD B. GREAR, EXECUTIVE DIRECTOR, OMAHA AIRPORT AUTHORITY, ON THE AIRPORT AND AIRWAY SYSTEM DEVELOPMENT ACT OF 1979, BEFORE THE AVIATION SUBCOMMITTEE OF THE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION, U.S. SENATE, SEPTEMBER 13, 1979

My name is Ronald B. Grear. I am Executive Director of the Omaha Airport Authority. I appreciate the opportunity to testify on Senate Bill S. 1648 which, we believe, will produce substantial benefits to Omaha and other cities of the county.

The Omaha Airport Authority was created in 1959 as an independent agency of the City of Omaha. The Authority's responsibilities include the provision, operation and maintenance of adequate airport facilities for the City of Omaha. Pursuant to State law, we have no taxing power.

For twenty years, therefore, we have operated on a self-supporting basis, excepting the construction grant funds from the Federal Aviation Administration and a modest grant program from the Nebraska Department of Aeronautics. We believe the time has come when Omaha and other airports like Omaha can and should be fully self-supporting. We believe also that Senate Bill S. 1648 can become the vehicle to accomplish this goal. Not only can we do without grants, we can do a better job without them.

We believe this bill will produce very substantial benefits. It will produce large savings to passengers. It will significantly increase the ability of airports to obtain the capital funds necessary to build the facilities required to accommodate the current air travel boom. By eliminating red tape, airport improvements can be built faster and cheaper with no sacrifice in quality.

The first major benefit is the substantial savings for airline passengers. The benefits can be shown by what will happen in Omaha. During the period from 1971 through 1978, Omaha received federal grant funds that averaged $1,300,000 per year. Currently, our entitlement funds amount to approximately $1,500,000 annually. In contrast, we estimate that the 8 percent ticket tax will cost Omaha passengers approximately $5,700,000 in 1979. If the ticket tax were reduced to 2 percent, only $1,400,000 would be collected and $4,300,000 would remain in the pockets of the Omaha passengers.

Of course, the Authority would expect to increase fees charged to airport users, primarily airlines, to obtain capital funds no longer available from federal grants. This in turn could cause the airlines to raise fares. But assuming our capital need would remain at $1.5 million annually and our fees were increased accordingly to offset the lost grant funds, there would be potential annual savings to Omaha passengers of $2,800,000.

Secondly, although the bill ostensibly reduces capital funds available to airports, the actual effect will be just the opposite. This is a significant though perhaps unintended benefit.

The ability of an airport to raise capital funds depends on its earnings. Under the present law, the $1.5 million in funds obtained by Omaha from Federal grants are not counted as earnings in raising capital, because they are dependent on Federal allocations. However, when we raise this $1.5 million by increasing fees, our earned income is increased by the same amount. Our investment bankers estimate that Omaha's revenue bond capacity would be increased by $14,300,000—an increase of 90 percent. If this were projected for the entire industry, it would provide a shot in the arm which would go a long way towards providing the capital funds necessary to build the facilities required to accommodate the current air travel boom.

Thirdly, we can save time and money by the elimination of FAA approval at various stages of planning, design and construction. Safety and construction standards are established by the FAA through regulations and advisory circulars. We would continue to meet those standards. However, there is simply no need for the FAA to duplicate the engineering functions of the airport to assure that those standards are met.

The elimination of time consuming and expensive duplication occasioned by Federal approvals will enable us to complete airport improvements more quickly and more efficiently. In these days of rapidly escalating construction costs, time saved is money saved. With wages, material costs, and interest rates steadily increasing, time lost through unnecessary Federal involvement means that the airport must incur higher costs during construction.

In summary, the net effect of this bill in Omaha will be:

(1) No loss of revenue to the Omaha Airport Authority.

(2) No loss of revenue to the airlines serving Omaha.

(3) A net savings to Omaha passengers of $2,800,000.

(4) A substantial increase in borrowing power for the Omaha Airport Authority.

(5) Reduced costs of capital improvements because of the elimination of time consuming and unnecessary federal involvement.

We do have one problem with the bill as drafted. It unnecessarily continues obligations and assurances stemming from past agreements, even for those airports which no longer receive Federal funds. Those airports should be released from those obligations.

When Senator Cannon introduced S. 1648 on August 2, 1979, his introductory remarks included the prospect that enactment would eliminate the cost of the middleman (the Federal Government). He also mentioned that acceptance of Federal funds burdened the recipient with a mountain of red tape, bureaucratic requirements, and Federal Governmment meddling. Eliminating that cost and being relieved of that burden are strong inducements, of themselves, to giving up Federal airport aid.

It is extremely important that a clean and complete break be made. The obligations and assurances stemming from past agreements must be withdrawn altogether. Unfortunatley, the bill falls short of that mark. It provides that "the Secretary shall issue criteria and requirements pursuant to which the sponsors of airports . . . may, at their option, terminate any existing assurances, requirements, or contractural obligations . . . " It also provides for continuation of other assurances in Sec. 23 para (c)(3). We strongly urge that the bill itself include language to terminate all assurances, requirements and obligations.

One of these obligations is of particular importance. It provides that no part of a Federal grant shall be included in the rate base in establishing fees for users of an airport. With the passage of the bill eliminating grants for larger airports, there is no reason to bar recovery by airports of depreciation on assets purchased with past grant funds. Money to replace these assets when they are worn out must be accummulated, and there is no better way than recovery of depreciation charges. This would also be an effective method to replace a substantial portion of the grant funds to be lost.

Thank you for the opportunity of presenting testimony. We think the bill represents a positive milestone in the developing of airport legislation.

National Association of State Aviation Officials,
Washington, D.C., October 14, 1981.

Hon. Daniel Rostenkowski,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

The National Association of State Aviation Officials submits the following for the record of the subject hearings:

NASAO represents the aviation departments of 48 states and Puerto Rico. Over the last three years of discussions and deliberations relating to the renewal of the Airport and Airways Trust Fund, our policy and position has remained constant.

The income to the Trust Fund should be roughly equal to the outgo—if the outgo cannot be increased, then the income should be reduced. It should certainly not be increased.

In view of the current state of the Trust Fund surplus, we see no reason to change that view. In the course of your hearing, your committee heard many different numbers related to the supposed amount of the surplus. In the interests of possible clarification, we offer these:

The U.S. Treasury report of July 31, 1981, gives the "Excess of assets over liabilities" in the Aviation Trust Fund as $5,343,701,397.

Since July 31, the monthly expenditures out of the Trust Fund for FAA O&M and F&E programs has been approximately $60,974,071 a month—or a total of $182,922,213 for the three month period. In addition, the amount of $450 million for fiscal year 1981 ADAP has been expended from the Fund. Interest contributions (income) to the Trust Fund are running about $326,415 a month—total of $979,245 for the three months since July 31.

According to our figures, therefore, the Trust Fund surplus (Excess assets over liabilities) as of the end of this month will be $4,711,758,429.

It is our understanding that the primary reason the Administration gives for wanting to see this surplus continue and build is to provide the initial dollars to effect a major computer buy in the mid-1980s.

We believe that user taxes should be kept down until the Administration can come up with specific plans, costs, and benefits for the proposed computer system, at which time the purchase should be separately evaluated for funding by the Congress. The technology in this field is still evolving rapidly enough that cost may not be as great even in a year or two as are now anticipated. Adding to the already unconscionable surplus in the Trust Fund in anticipation of this computer buy, then to find out that the costs were greatly overestimated, could result in a further embarrassment of unwanted riches.

Further, with our close contact with the general aviation elements of aviation, we know that the tax levels proposed by the Administration or general aviation fuels—almost 900 percent, as testified to before your committee—would result in an economic disaster to the industry.

The NASAO, therefore, supports a tax program along the lines of that recommended to the Senate by Senators Cannon and Kassebaum (S. 1272). This offers rational and supportable tax levels, and related closely to the expenditure levels in the Senate authorizing bill, S. 508.

We believe the proposed fuel tax of 8.5 cents a gallon is fair and reasonable, and that there is no reason to discriminate between AvGas and jet fuel sold to general aviation. This rate was, of course, approved by your committee last year.

The Senate proposal will more than fund any possible spending levels which can be anticipated over the next few years, and taxing at higher levels cannot by any means by justified on the basis of need.

For the National Association of State Aviation Officials:

Joseph G. Mason,
Executive Vice President.

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